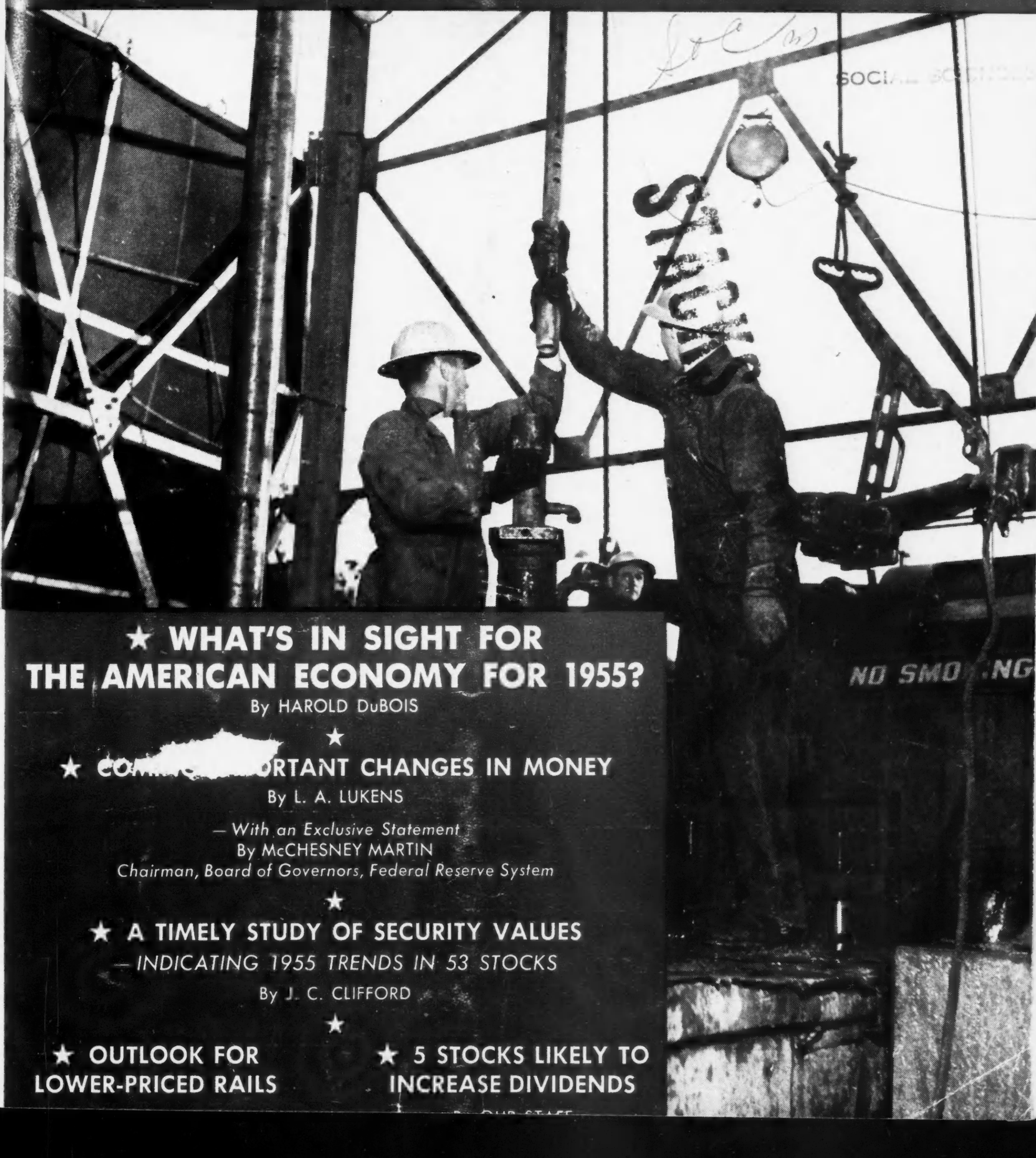
The MAGAZINE of WALL STREET
and BUSINESS ANALYST

FEBRUARY 19, 1955 85 CENTS



★ **WHAT'S IN SIGHT FOR THE AMERICAN ECONOMY FOR 1955?**

By HAROLD DuBOIS

★

★ **COM[illegible]ORTANT CHANGES IN MONEY**

By L. A. LUKENS

— With an Exclusive Statement
By McCHESNEY MARTIN
Chairman, Board of Governors, Federal Reserve System

★

★ **A TIMELY STUDY OF SECURITY VALUES**

— INDICATING 1955 TRENDS IN 53 STOCKS

By J. C. CLIFFORD

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★ **OUTLOOK FOR LOWER-PRICED RAILS**

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By OUR STAFF

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 95, No. 11 February 19, 1955

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EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub

Soft Drinks that Put Sparkle in the Party

A welcome guest in homes today is a familiar favorite in a new package. Across the land, soft drinks in tin cans put the sparkle in many a party.

The growing use of tin cans for containers is one of the newest advances in the soft-drink business. Cans offer many advantages: They are easier to carry, to chill, to store, and finally to dispose of. And, because "tin cans" are actually about 99 per cent steel, they are unbreakable.

These advantages account for the production of an estimated 750 million soft-drink cans in 1954. Industry sources predict a tremendous increase over the next few years, for the tin can as a container has many qualities demanded by consumer and canner alike.

Teamwork Creates a New Product

The development of soft-drink cans parallels that of the beer can in many respects. In a relatively few years the use of tin cans for beer has skyrocketed, so that last year about six and one-half *billion* beer cans were produced.

The current development of cans for soft drinks is an outgrowth of the success in canning beer. However, the soft-drink can, though similar to the beer can, posed many new problems. Higher pressures and greater acidity called for special steels and different lining materials. And each of the 21 or more soft-drink flavors marketed today has different characteristics and container requirements.

The success of the soft-drink can resulted from the close teamwork of the steel mills, can manufacturers, and soft-drink companies in solving these many complex problems.

Steel in the Starring Role

National Steel, of course, is not in the soft-drink or can-manufacturing business. National's role is that of a leading supplier of hot dipped and electrolytic tin plate to the country's can manufacturers. National research and production men work closely with their customers to develop the precise kinds of steel and tin plate needed to produce the more than 35 billion tin cans made every year. Tin cans consume about four million tons or more of tin plate each year—and that means steel and lots of it.

It has been said that modern civilization could not exist without the tin can. Canning has made possible the wonders of exploration, it has proved a boon to the housewife, it has fed our troops on the battlefield, it has reduced food costs and substantially raised our standard of living.

And canned soft drinks are just the newest example of the many modern products made possible by *steel*—America's great bargain metal.

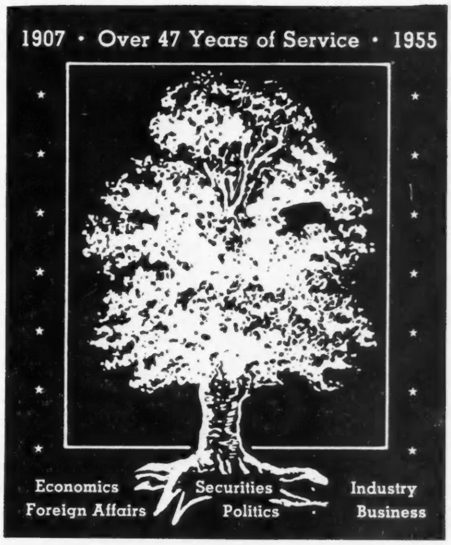
SEVEN GREAT DIVISIONS WELDED INTO ONE COMPLETE STEEL-MAKING STRUCTURE

Great Lakes Steel Corporation • Weirton Steel Company • Hanna Iron Ore Company • Stran-Steel Division • National Steel Products Company • The Hanna Furnace Corporation • National Mines Corporation

NATIONAL STEEL CORPORATION
GRANT BUILDING PITTSBURGH, PA.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. D. KING, *Managing Editor*



The Trend of Events

A $64 BILLION QUESTION . . . The Fulbright Committee which has started a "study" into the stock market has asked some questions which it hopes will cast light on the connection between the recent action of stocks and the economy. The most significant question it asks is: What are the chief factors behind the astonishing market rise of the past seventeen months?

A good-sized volume could be written on this one question alone and many answers, assuredly, could be found. Yet, one motivating factor for the persistent accumulation of stocks, especially the best class of stocks, can be cited. That is the belief of investors generally, and this, of course, includes the great institutional investors, that the United States faces a period of unparalleled expansion in the next decade. On the basis of this belief, they foresee a period in which business profits and dividends will rise to levels never before witnessed. Therefore, it is the belief of investors who are looking quite far ahead that the prices which they pay for stocks to-day—admittedly very high by comparison with old standards—will be more than justified by long-term results. They believe that while minor adjustments in the economy—as occurred in 1953-1954—are inevitable, these will be unimportant in relation to the major upward trend in the next decade.

Translation of these beliefs into active and persistent accumulation of stocks has not only had the effect of increasing the volume of investment but has served to limit the supply of securities which normmally are offered for sale when prices are high. This has created a special scarcity of the better-grade stocks which has facilitated their steeply upward trend.

It will be seen then that the real foundation of the rise is not so much the present more favorable business situation nor even the prospects of further improvement this year but, rather, the long-range calculation by investors that the economy is destined to move to a much higher level than ever before experienced in this country.

But in the meantime, the normal tendency of the market to contract whenever excesses appear is bound to manifest itself. The problem for investors, therefore, is to consider whether their interests are best served by adopting a long-range investment objective which obviously will require unusual patience and stamina on their part, or whether they should trim their sails more closely to the wind and limit their objectives to the more immediate future.

LABOR MONOPOLY . . . The giant merger between A F of L and CIO which will come into being in autumn looks suspiciously like a monopoly. The power represented by such a vast, highly concentrated organization with fifteen million members is something to conjure with. Further, it is the avowed purpose of the leadership to bring into the fold as many of the unorganized workers of the United States as possible, and it is not difficult to see that within a few years, the membership may climb an additional several million. It is also quite within the realm of probability that, in a rush for

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

the bandwagon, the remaining independent labor unions may desire to become incorporated in the new union set-up. In that case, we would be confronted with a situation in which possibly as many as 25 million workers were under the command and jurisdiction of a tightly knit core of ambitious leaders. Power of such dimensions has never been known before in the United States, outside of the federal government itself.

The economic advantage which the pooling of manpower and financial resources places in the hands of the leaders of the new union is obvious. If one could be sure that the leadership would show the highest degree of responsibility, and act with restraint and moderation in its dealings with industry, the concern with which the nation views this new and vitally important development could be modified. Unfortunately, there have been too many instances in past years of a ruthless disregard for the interests of the people, as a whole, by the union leaders.

It is true that the mostly jurisdictional strikes which have marred relations between the AF of L and the CIO in recent years will now be ended. Concededly, that will be a net gain for industry and the public in general. But there may be a total loss if business and industry should be less free, as is likely, to bargain on equal terms with labor. In that case, management could conceivably face a battle in which the odds slowly went to the Big Union.

The political aspects of the new situation created by formation of the merger between the two huge union organizations are perhaps even more important than the economic. The pressure that such vast voting power can exert on Congress, and on State and municipal authorities is enormous. No other group in the United States possesses power that is remotely comparable. In the hands of a leadership bent on political domination, this could be a very great danger to this country. While the present union leadership appears sufficiently aware of its responsibilities not to press its new advantages too hard, it is perfectly possible that at some future time, a new leadership might arise to put such scruples aside. The American people should not be made subject to such an unfair test.

It is as yet not clear whether the new labor union merger will come under the provisions of the Anti-trust Act, but it is at least the duty of congress to investigate and determine to what extent the new labor combine does constitute a monopoly. But even if there were no legal barrier to such a merger, the deterrent value of a thoroughgoing investigation to a too ambitious labor leadership could prove most salutary.

CALM ON THE BUSINESS FRONT. Although the Formosa crisis has increased tension in the world capitals, there has been no rush to accumulate goods beyond normal business needs. Any activity now taking place in inventory build-up in this country, for example, is due to the domestic increase in sales volume flowing from the business recovery and not to any fear that supplies may become short, as was true in the early part of the Korean war. Apparently, business circles here have come to the conclusion that the President's stand on Formosa will lead to a truce, if not peace, and that there will be no war in the Far East. Certainly, there has been no reflection of the Formosa crisis in the price of commodities. These have remained relatively stable. It is also significant that except for copper ,which has been subject to special influence, world prices have also remained stable. This is perhaps as good an indicator as any that war is not generally expected for the foreseeable future.

A STEP IN THE RIGHT DIRECTION . . . The Chilean Congress has finally taken an overdue step in reversing the fatal 20-year trend in punitive taxation of the American copper companiees which operate in that country. Taxees will now be reduced to 75% of gross operating revenue, compared with the confiscatory 85% rate which had recently prevailed. Some further, though minor, tax concessions are granted on a sliding slace depending on future increases in production. Even under the ameliorated rate, the burden is very heavy for American companies as they are permitted no depletion allowances, which is customary with mining companies in this country.

Despite the still existing inequalities in the new Chilean tax law controlling American copper companies, the change is to be welcomed not only because it will permit these companies to operate, though at a minimum of acceptable profits, but because it marks recognition by a South American government that unfair taxes on foreign-owned property, sooner or later will recoil on the government itself. The fact is, in the case of Chile, that the economy is virtually dependent on its copper industry. Unless the government intended to nationalize the mines completely, on terms that could mean virtual confiscation to the private interests concerned, it had to deal realistically with the fact that, under the conditions imposed, the incentive to continue operations by these companies would have been totally destroyed.

The impasse in to which the Chilean government had driven itself should be a reminder to other under-developed foreign nations, particularly those which are largely dependent on foreign capital with which to expand their industries, that the law of diminishing returns applies to taxes and other forms of restrictive controls. If they wish their industries to be developed, they must permit capital, domestic or foreign, to function profitably. This should be perfectly possible, under enlightened laws administered fairly, without necessitating the return of that type of exploitation which cast so much discredit on the foreign entrepreneurs of former days.

THE "STOCK SPLIT" AS A POTENT FORCE IN THE INVESTMENT MARKETS . . . There is every indication that 1955 will break all post-war records for the number of stock splits in a single year. The extraordinary vitality of the stock market, the broadening of public interest, and the temptingly high price of shares which can qualify for stock-splitting has undoubtedly been too compelling for many managements to resist and even some of the most conservative have recently fallen into line and have recommended such action to their stockholders.

Whether the stock-split is the chief factor in the rise of individual stocks, or whether the rise forms the basis for the stock (*Please turn to page* 672)

As I See It!

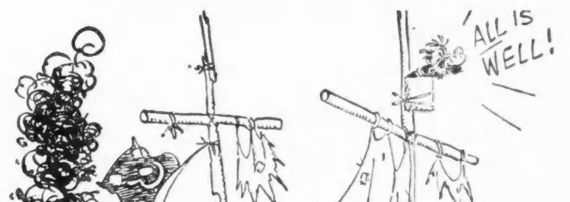
By JOHN CORDELLI

MEN OF STRAW — A TEST OF LEADERSHIP

The evacuation of the Tachen Islands and the new shakeup in the Kremlin have overshadowed the regrettable and deplorable crisis created in France by the fall of the Mendes-France Government—the most dynamic and imaginative Government that that country has had since the end of the war. Not only is the defeat of Mendes-France a set-back for his country, but it is likely to have serious reverberations on our own policies and on the defense of the free world. The Kremlin's hopes for defeating German rearmament have risen. At best, ratification by the French Government of the Paris Treaties setting up the European Defense Union may have been delayed for months to come. At worst, these Treaties may completely fail to pass in the French Council, in which case the German Parliament would probably also refuse to ratify them.

All this makes one realize the sad fact that in the key countries of the free world other than the United States, the leadership is built on quicksand, held back by uneasy party coalitions and by a desire to please doubtful partners. In building a dam against international communism we have in fact been leaning on men of straw. The French political parties that have refused to back Mendes-France in his attempt to reach a solution of the North African situation have been notorious for their selfishness and for their refusal to assume responsibility except under duress. Even Prime Minister Churchill and Secretary Eden appear to be hamstrung when it comes to taking a vigorous stand with respect to Red China. With the elections not far off, and with popular sentiment against any involvement abroad, the Tories have been careful not to play into the hands of Attlee and Bevan by taking a strong line toward Peiping. They have been anxious, moreover, not to alarm that bellwether of all the neutralist countries, the Indian Premier Pandit Nehru. Hence the British suggestion that Formosa be neutralized, a move that at least for this generation would kill all hopes of China returning to the ranks of the free nations.

EVERYONE GET BACK DOWN BELOW



Dowling, in the N. Y. Herald Tribune

Under the circumstances, the United States has little choice but to pursue of its own accord the policies that we know to be in the interest of this country and that put an effective barrier in the way of aggression by international communism. Primarily this means that we keep our powder dry, continuing the build-up of our own armed forces and those of our Allies. That is the language that the leaders in Moscow and Peiping know best. Now that there are a few realistic military men in the Kremlin, who know what the outcome of a war is likely to be, the Soviet leadership should be more wary of taking steps that might precipitate even local wars. There is no need to throw up the sponge as some of our Allies appear to be doing, in respect to such threatened border areas as Southern Vietnam. A dose of the communist's own medicine should effectively keep that country out of Peiping's hands.

Our Allies and we are all interested in arresting the spread of international communism by peaceful means. However, compromise has been something that the totalitarians up to now have refused to understand except when it has suited their own aims. Yet there is a ray of hope. the recent events in Moscow indicate that the personal struggle for power continues within the Kremlin. While the recent boastful speeches of Molotov and of Marshal Konev sound warlike, they seem to mask internal weakness. So does the supposed shift from consumer to heavy industries. Briefly, this (*Please turn to page* 675)

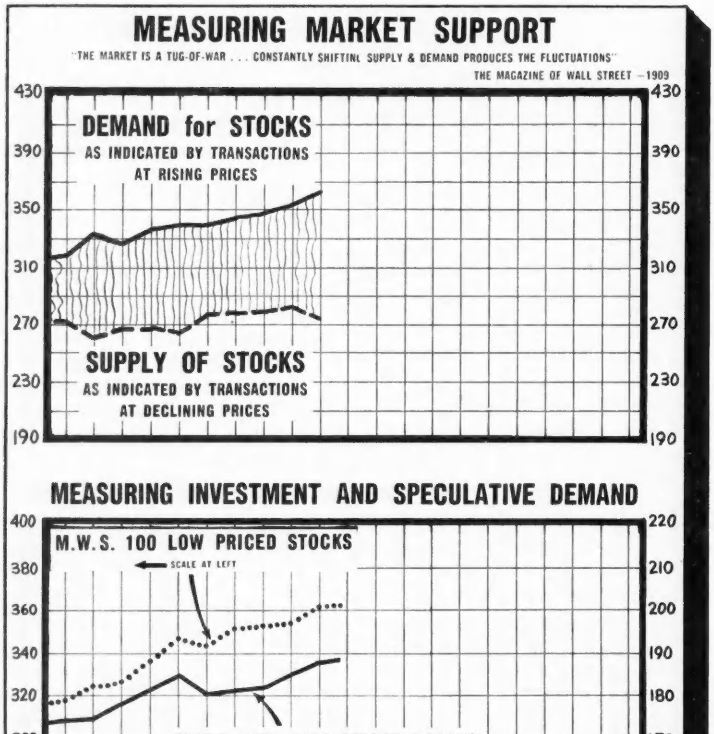
Do Stocks Mirror "Thin" Markets or Real Values?

The market remains highly mixed, with two-way movement of the averages rather volatile so far in 1955. Moderate improvement during the past fortnight took the industrial section to a new high by a modest margin. Rails are still a little under their early-January top. Prospects justify sticking with our selective, reasonably conservative policy.

By A. T. MILLER

On balance, there was a moderate net gain in stock prices over the last fortnight. It sufficed to take the Dow industrial average to a new bull-market (and all-time) high. Most of the gain centered in two trading sessions last week, and upward tendencies showed some tentative indications of running into trouble in the week's final session. Rails also extended their upswing from the mid-January reaction low, but remained slightly under their January 3 top. The slow-moving utility average edged up to a new bull-market high.

This performance leaves it conjectural whether the market is prepared to surge ahead in an important extension of the upward trend. The last previous "leg" of advance, from reaction lows of last October to the January 3, 1955, highs, amounted to a net extension of prior rise by 12.2% for the industrial average and 21.4% for rails. To date the net addition to the industrial average's early-January high is less than 1%; and, as heretofore noted, the rail average has yet to break into new high ground. Trading volume showed no expansion on strength during last week; and was heaviest on a Tuesday (February 8) dip of 3.89 points by the industrial average. It remained well under broadest earlier levels, probably partly due to the Stock Exchanges recent "suggestion" to floor traders that they watch their step, in view of the pending investigation of the market by the Fulbright Committee.

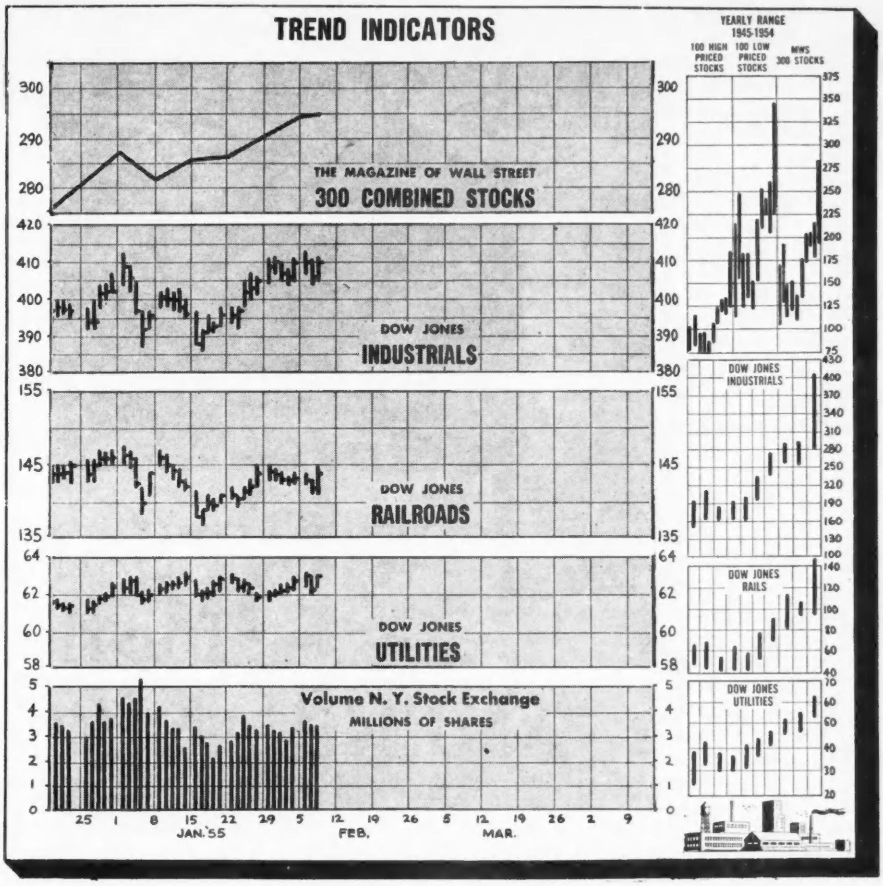


The February 8 sell-off, later more than made up, was popularly attributed to uncertainty created by the surprising news of Russian Premier Malenkov's "resignation," the resultant two-way concentration of power in the hands of Communist Party boss Kruschev and the Red Army top command—with one or the other apparently likely to call the whole tune eventually—and the immediate more harshly anti-U. S. tone of the Russian propaganda "line." That is perhaps as good an explanation as any other; but it must be noted that, regardless of the news, fairly frequent sharp dips or upward spurts have characterized the market since the turn of the year, often as a result of wide movement in a relatively few prominent stocks; and that these gyrations have not yet footed up to an enthusiastically confident projection of the bull trend.

Since the prophetic significance of upside "penetrations" has at times proved to be limited, attainment of a new high by the rail average, "confirming" recent favorable performance by the industrial list, would not necessarily promise a strong near-term market upsurge. The latter is, of course, possible; but so is something not greatly different from recent moderate and highly selective trading-range fluctuation. Indeed, there are some considerations which could argue for the latter.

They include—in addition to the fact that stocks in general are not nearly so attractively priced as they were at earlier stages—the strike threat which

may face the automobile and steel industries by late spring as a result of tough union demands for a start on a guaranteed annual wage; foreign contingencies, even though they do not seem to be more alarming than usual at the moment; tightening credit conditions; uncertainty whether they may be tightened further by additional boom-control moves at Washington; and the possibility of a further boost in margin requirements, should another market "spree" get under way.



On the other hand, it must be noted that the supporting factors remain impressive; and that, even though it is not pronounced, such bias as the market now indicates is on the upward side. That is more so for stocks than for the "averages", in that instances of notable individual strength far exceed those of conspicuous weakness. Thus, in the latest week, there was a daily average of about 140 new highs made by individual stocks.

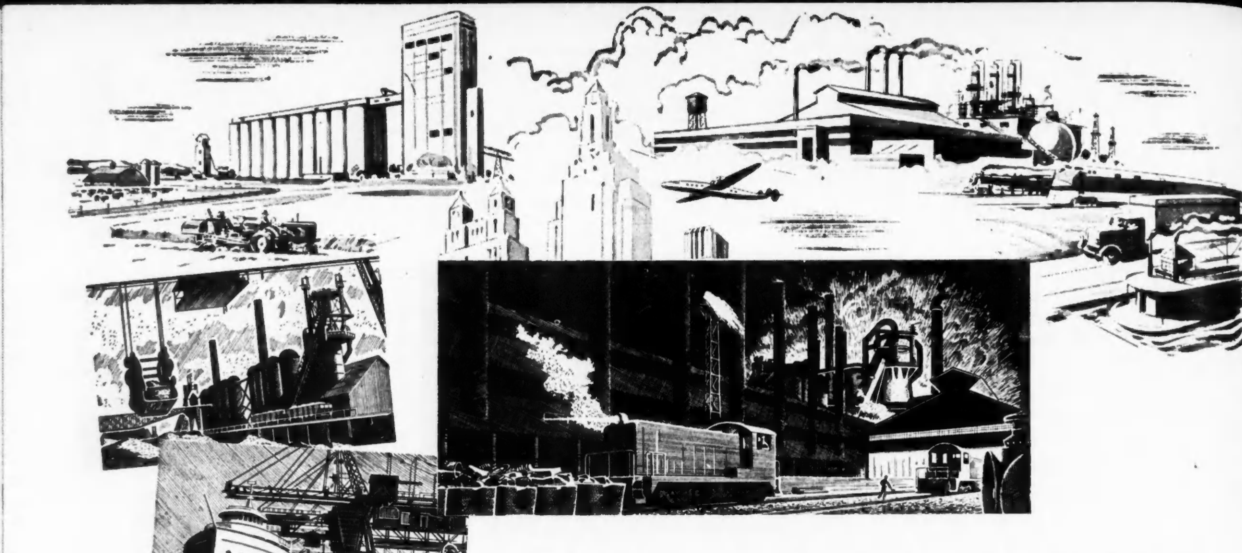
Tending to make for selective strength are: (1) pressure of institutional and personal funds seeking satisfactory employment in a market in which the bargains have long since disappeared; (2) the relative shortage in supply of good stocks due (a) to long-pull absorption of better-grade shares by institutions, (b) the still fairly light flotations of new issues of investment quality, notwithstanding the exception of the recent large General Motors offering, and (c) reluctance of many, if not most, investors to take profits on sound stocks because of the 25% capital gains tax penalty; (3) the presently favorable trends of business activity, corporate earnings and dividends; and (4) the fact that average dividend yields, even though pared roughly 30% over the past 16 months or so, are still comfortably in excess of the return available on high-grade bonds. Thus, there are real values behind the rise of many stocks of the best class.

Whetting interest, there have so far been over 40 stock splits (proposed, effected or awaiting ratification) since the first of the year, suggesting a record number for the first quarter and including a sizable number of prominent issues. Also, since the start of 1955 there have been close to 90 boosts in cash dividend rates, including those associated with splits. The strong trend, promised higher 1955 earnings and generally satisfactory-to-strong corporate cash positions, suggest a full-year rise of perhaps 10% in total dividend payments. Representative industrials are currently on about a 4.25% basis, but nearer a 4.50% basis with allowances for a 10% gain in 1955 payments. For reference, that compares with yields of about 3.25%, 4.25% and 3.50% respectively, at the 1929, 1937 and 1947 market highs.

Compared with a year ago or six months ago, there has been a considerable increase in speculation. You see it in the reported higher percentage of transactions on margin, in the increase of buying for short-term gain, in the broader interest shown in secondary and lower-grade stocks. Low-priced stocks of cat-and-dog type have recently been making the best relative showing in a long time. Yet it would be an over-simplification to say that "the market" is now dangerously speculative. Actually, it is "a market of stocks"; and, therefore, many markets. There is no abatement of the flow of conservative investment funds into high-grade income stocks. There is no slackening of demand for premium-priced, low-yield growth stocks on the part of some institutional funds, and also for account of wealthy individuals subject to such a high tax rate that they have a minimum interest in current income return, a maximum interest in potentials for long-term capital gain. They prefer situations in which there is a heavy plow-back of retained earnings, preferably with capitalization thereof via stock dividends. This explains some current cash-dividend yields which, from the viewpoint of lower-tax-bracket investors, are absurd. To cite only three examples: Reynolds Metals 1.2%, Rohm & Haas 0.5% and Sun Oil 1.4%.

Present market tendencies and prospects call for no change in our selective policy. You should continue to hold positions in sound-- to-favored stocks, along with reasonable reserves.

—Monday, February 14.



WHAT'S IN SIGHT for the AMERICAN ECONOMY?

By HAROLD Du BOIS

In early 1955, there can be little doubt that business is in the process of a vigorous recovery from the limited recession of 1954. The evidence of this recovery runs almost uniformly through the available barometers of business conditions.

At the end of 1954, and apparently continuing into early 1955, the rate of new orders flowing into the manufacturing sector rose sharply. Inventory liquidation on the part of manufacturers ceased as long ago as last October, and there has doubtless been a certain amount of accumulation since then. Construction activity, which boomed even through the recession of late 1953-early 1954, has risen to a still faster pace.

Surveys of executives' opinions about the outlook have recently been producing consistently optimistic results, and in many areas some of the usual speculative aspects of a business cycle recovery have already reared their heads. There is now a small gray market in steel; the demand for copper, even after a 10% price rise, is evidently well in excess of current requirements, suggesting speculative accumulation; consumers are borrowing against durables purchases at close to the highest rate on record; automobile producers are cheerfully going ahead with production schedules which imply a very substantial rise in dealers' stocks of new cars in the next several months; the demand for funds exerted on the money market by this increasing activity has, together with some mildly restrictive action by the Federal Reserve and the Treasury, served to produce a slight tightening in credit, and a characteristic rise in interest rates.

In short, there are now enough typical features of fast cyclical recovery on the business landscape to raise a question: is the year 1955 to be not a year of moderate, steady recovery, as was generally forecast a few months ago, but rather a new flowering of the great postwar boom of the past decade? Is that historic boom to continue uninterrupted into the foreseeable future? Are the massive incentives of the boom undiminished, as effective as ever? Are the very hopeful long-run forecasts of the government—such as the $530 billion Gross National Product forecast of the staff of the Joint Committee on the Economic Report with respect to 1965—to turn out to be reasonable, or even conservative? Thus, what happens in 1955 is certainly very interesting in itself, but it takes on a greatly magnified interest because it is likely to disclose a great deal about the total state of postwar business, and its probable course over the next decade. It is therefore worth looking at in considerable detail even now, when conclusions must necessarily be tentative.

These conclusions can be set out briefly here. The new year is apparently to be much better than was expected three months ago. It may not fulfill the classic description of a boom in all respects, but it will pass well beyond a mere recovery from the 1954 recession. And there will be one striking and provocative aspect of the year: its great strengths will come in new areas, and will be owing to a new set of incentives and forces. This is strikingly demonstrated in many regions of the U. S. (see table). It will be not so much a new flowering of an old boom, a vigorous new upward course that is generating its own momentum, and owes little to the worn out forces of the late 1940's and early 1950's. This new

uptrend is not recession-proof: indeed, it is likely to experience some tough sledding even within the next eighteen months. But the basic fact about it is that it is not the old age of a dying trend; it is the youth of a new one. New units of buying power are being created, approximately 2.5 million persons a year and possibly close to 1 million family units. New additions to the working force, though not equally distributed over the country, form a leaven in which the national economy operates with increasing vitality at every level of the population. The addition of countless new products form the basis of new production and new markets, each counteracting on the other.

Where excess productivity capacity exists, this is eventually swallowed up in the rising consumption of the nation, as the population expands. At the same time the wage take of the working force, despite the unemployment figures, shows a tendency to rise to new high levels.

1955, Sector by Sector

In 1954, personal consumption expenditures, the single largest component of total national outlays, amounted to $234 billion. Significantly, in that year of recession these outlays actually increased, and their share of total gross national product rose from about 63% in 1953 to 65% in 1954. But even this share is historically low: in a prosperous pre-war year, personal consumption accounted for about 70% of total gross product.

In 1955, personal consumption is likely to show a very considerable rise. In real terms (that is, corrected for changes in prices) the 1955 jump in personal consumption could well be one of the largest in the postwar years. Main reasons: a very high level of consumer confidence, a large rise in personal incomes, a renewed climb in wage rates, high holdings of liquid assets, and a continued upward drift in the share of total output going to consumers. Give or take a few billion, personal consumption expenditures are likely to total $245 billion in 1955.

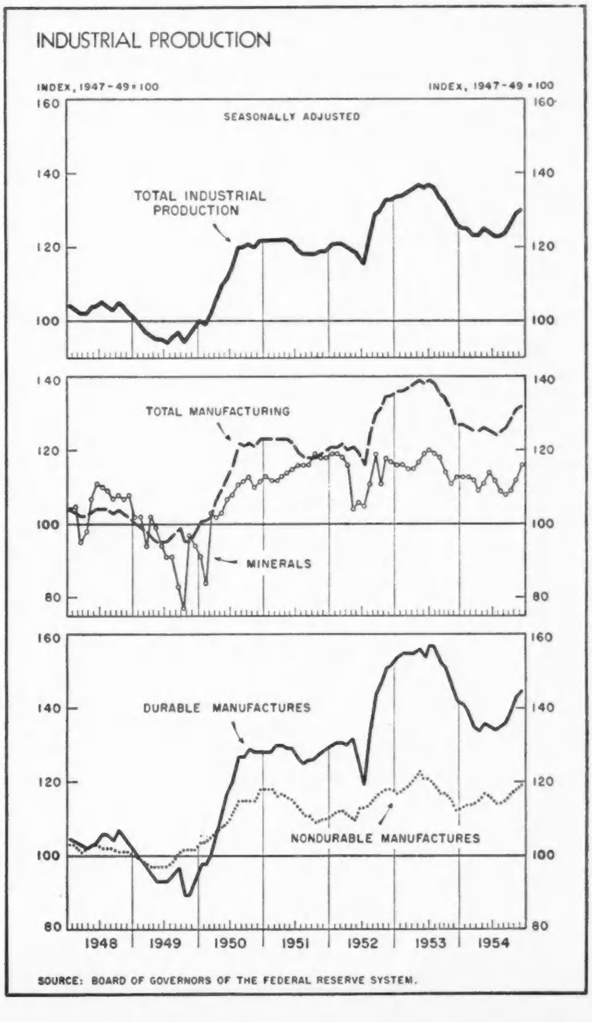
What is noteworthy about this figure is that it is not likely to depend heavily on rapid expansion of personal instalment indebtedness. Instalment debt incurrence is rising fast in early 1955, but the pace is almost certain to slow. The postwar boom has brought instalment debt back to its historic relationship to income, and in this sense one of the great postwar stimulants has been exhausted. But other stimulants have arisen in its place: the greater value offered customers in durable goods lines; the high level of liquid assets out of which durables purchases can be made; the sharp rise in the proportion of families owning their own homes, and prepared to improve those homes constantly with new appliances as they become available. In 1954, the automobile and appliance markets shifted out of dependence on the instalment credit market, and found themselves a healthy volume of cash business. As the current surge of credit buying wanes, auto dealers and other durables retailers may take a temporary setback, but the enormous size of the total market should make total volume for the year comparable to the boom levels of 1953.

Surge in Consumer Goods

In dollars, a much larger gain in expenditures is likely in soft goods. Here the old postwar boom has never fulfilled its promise, and sales have lagged far behind hard goods. In the new boom of 1955, soft goods, which have now completed some fundamental adjustments in costs and capacity, are likely to show a pronounced rise. Main reason; with postwar durables backlogs well filled, consumers can shift their additional incomes into a higher standard of day-by-day living, and that means more food, textiles, leather goods, gasoline, novelties.

Service outlays are also likely to rise, but not, as in the past, because of rising rents. With new homes being built at the current prodigious rate (see below), rentals are bound to no more than hold their own, and perhaps to weaken. But there will be a continuing shift into better rental units, and also a rising proportion of families owning homes. The switch from rental to ownership usually is accompanied by an improvement in accommodations, and the Department of Commerce reflects this improvement, in their service expenditures estimates, by imputing a higher rent to the family. However, the *share* of services in total personal consumption has evidently ended the inflationary rise which characterized the old postwar boom, and this in itself will provide funds for other forms of expenditures.

While the outlook for personal consumption expen-



Regional Changes in Industrial Growth

Production of Manufactured Goods

REGION	1919	1939	1947	1952
New England	12.9%	8.2%	7.0%	5.5%
Middle Atlantic	33.9	24.6	22.2	22.8
East North Central	28.4	33.9	31.1	32.4
West North Central	5.6	4.5	5.7	4.2
South Atlantic	7.4	11.1	11.3	9.1
East South Central	2.6	3.9	4.3	4.1
West South Central	2.9	5.9	7.6	11.6
Mountain	1.2	1.3	1.6	1.6
Pacific	5.1	6.6	9.2	8.7
Total	100.0%	100.0%	100.0%	100.0%

ditures is certainly the brightest part of the 1955 business picture, other sectors will show considerable strength. Of these, residential construction is the most notable, and here again the impetus has changed from earlier years. The Housing Act of 1954, by greatly easing borrowing terms, has certainly stimulated homebuilding, and the methods it used to stimulate the industry are not very different, in effect, from those used in early years of the postwar boom. But it is noteworthy that this time they are not conceived of as an emergency measure to accommodate veterans and to recoup ground lost during the war. This time a liberal housing credit policy has become imbedded as a permanent part of federal program, aimed at a continuing improvement in the nation's housing facilities. Given this basic condition, the actual housing market itself must be considered to have been greatly expanded, and a high rate of housing starts (although not necessarily the stratospheric rate of recent months) is very likely to prevail for several years. When it fails, moreover, slum clearance and suburban relocation programs are at hand to continue the building boom.

Much the same outlook holds for non-residential building (excluding industrial building). Commercial construction is likely to continue at a rapid rate as long as homebuilding holds up, and particularly as long as homebuilding takes its current impetus from decentralization and suburbanization. Just as importantly, however, road building and school building programs, jointly financed through federal-state action, are just beginning to assume major proportions in the construction total. Over the next half decade, much less the next year, they are certain to grow rapidly; the Administration's program in these areas more or less guarantees this outcome. In 1955, state and local government outlays are likely to climb to the $30 billion level (from $27.5 billion in 1954), mainly as a result of higher construction outlays.

Expenditures for Plant and Equipment

Industrial building and expenditures on productive machinery and equipment are likely to show little change in 1955 as a whole, but their trend late in the year is very probably to be upward. Here again the reasons for strength are not those that applied in early postwar years. Capacity is ample in virtually all industries, and plant facilities are reasonably modern. But cost reduction and technological improvement of processes and products is now a way of life for American business. This would not be particularly significant, if it were not for the fact that American business now has the funds, and the cash throw-off, to live this way of life. After several years of stability in equipment prices, and several years of a very high rate of equipment purchases, depreciation allowances have risen dramatically as a source of corporate funds. (This amounts to saying that for the first time in the postwar period, average book cost of equipment and average replacement cost are no longer miles apart.) In 1954, depreciation and amortization allowances provided corporations with a record $12.5 billion, about 75% more than their retained earnings, and substantially more than half their total outlays on plant and equipment. In 1955, these allowances will be close to $14 billion, and an expected moderate increase in corporate retained earnings should bring the total funds available to corporations from internal sources to the highest level on record. At the same time, the 1954 boom in the stock market has made equity financing cheap and easy, at least temporarily. As a result, corporations in 1955 will be in a better position to finance expansions and improvements than at any time in history. Assuming that their confidence in the long-run American business outlook is not radically diminished, this combination of favorable financial factors is very likely to precipitate a new uptrend in investment outlays.

Finally, American business relationships with the rest of the world have altered radically since the early days of the postwar boom. Exports are no longer being financed on a bonanza scale by the Marshall plan and its ECA successor, and England and Europe, our main customers abroad, have achieved a remarkable degree of economic recovery. The boom impetus of producing for a half-starved half of the world is gone. But in its place has risen an avid and apparently reasonably stable demand for American products in world markets. American exports, without much help from Washington, appear now to be in a moderate long-term uptrend. Our foreign markets are admittedly competitive cost-wise, but the past year provides some warrant for concluding that the worst of Europe's economic troubles are over, and that in a healthy condition they are willing and anxious to take American goods in as substantial volume as when they didn't have to pay for them.

The addition of the sector accounts described briefly above suggests that in 1955 as a whole, gross national product is likely to be in the neighborhood of $375 billion. This represents an increase of about $18 billion from 1954. About $10 billion of this increase is likely to appear in personal consumption

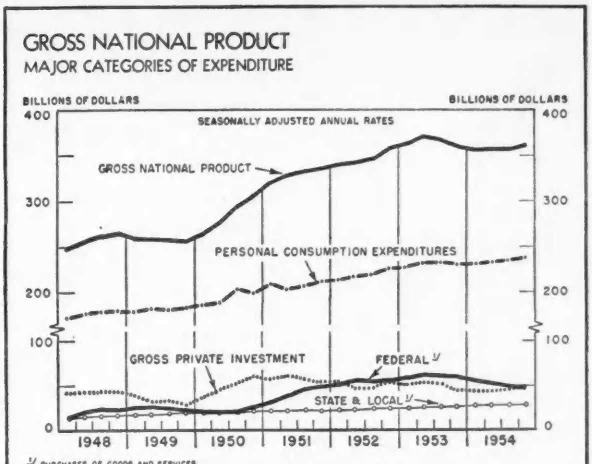
expenditures, with another $5 billion split about equally between new private construction activity and state and local government spending (principally for public construction). The remaining $3 billion rise represents an end of inventory liquidation, which in 1954 reduced gross national product by somewhat more than that amount.

Filling the Inventory Pipeline

One of the most important developments has been the noticeable drop in inventory liquidation. It is about a year and a half that inventories hit their peak. They are now almost $4 billion lower. In recent months there have been distinct signs that inventories have become uncomfortably low in certain areas. Steel and copper are good examples. Also there are signs that textile liquidation of inventories have been about completed. One might cite other groups such as drugs and coal.

At the same time, sales and new orders have increased and the upward thrust of this trend has become particularly marked in recent weeks. It would, therefore, appear that many of the unfavorable factors which marked business conditions in the earlier part of 1954 are now disappearing. All this is having a marked effect on the national economy. What is especially significant is that these important trends are attaining real momentum.

But more important than the details of this forecast for 1955 are the elements of strength which underlie it. For these elements are distinctly a new combination, not a last regrouping of old forces. They include new measurements of markets for roads, schools, and private homes; a new composition of total output organized around the endless demands of the consumer; a favorable world market; a strongly improved financial picture for corporations; long-term confidence, on the part of consumers and business, in the American outlook; and, above all, a recognition that the American government, in the hands of either major party, can no longer tolerate any substantial interruption of the nation's long-term growth perspective. None of these elements guarantees that a short-term recession, even a painful one, cannot occur: what they do guarantee is a general business atmosphere, in 1955 and in ensuing years, which will be vastly more favorable than might have been expected two or three years ago, when the great stimuli of the postwar boom began to falter, and when the great World War II backlogs were shrinking away.



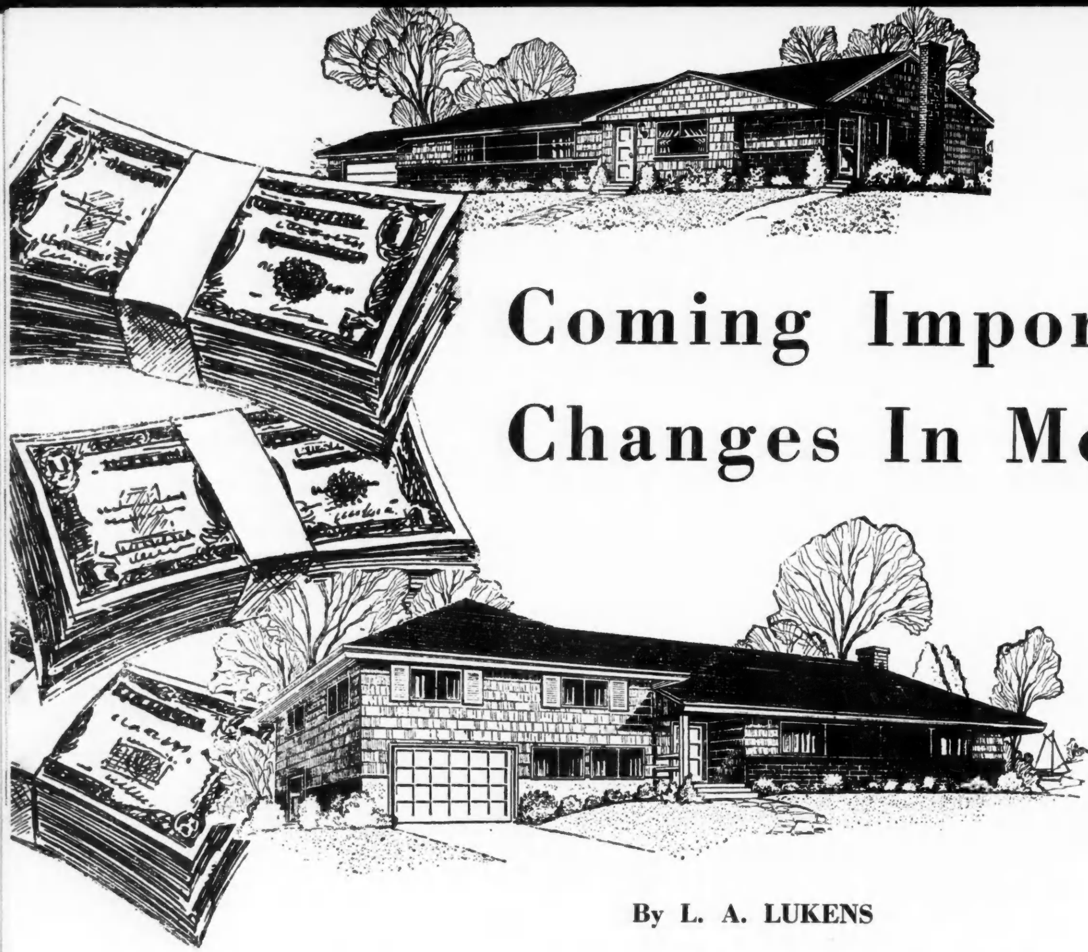
1/ PURCHASES OF GOODS AND SERVICES.
SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

Important Business Indicators

Period	Manufacturing and trade[1] Sales[2]	Manufacturing and trade[1] Inventories[3]	Manufacturing Sales[2]	Manufacturing Inventories[3]	Manufacturing New orders[2]	Retail Sales[2]	Retail Inventories[3]	Department stores Sales[2]	Department stores Inventories[4]
	Millions of dollars, seasonally adjusted							Index 1947-49 = 100, Seasonally adjusted	
1939	10,802	20,051	5,112	11,465	5,354	3,503	5,534	35	35
1944	23,785	31,059	13,782	19,507	11,906	5,851	7,640	62	58
1946	27,150	42,892	12,617	24,457	13,694	8,541	11,852	90	77
1948	36,438	55,612	17,630	31,693	17,350	10,877	15,828	104	107
1949	34,664	51,111	16,416	28,860	15,903	10,893	15,311	98	100
1950	39,917	64,092	19,284	34,314	20,980	11,974	19,316	105	109
1951	44,821[5]	75,268[5]	22,205	42,904	24,391	13,185[5]	21,239[5]	109	129
1952	46,080	77,109	23,046	44,190	23,710	13,674	21,592	110	118
1953	48,8[illegible]7	81,072	25,271	46,722	23,846	14,234	22,661	112	126
1953: October	48,284	81,805	25,010	47,044	22,163	14,040	22,720	110	128
November	47,518	81,276	24,256	46,909	21,594	14,104	22,437	113	127
December	47,209	81,072	24,126	46,722	22,026	13,932	22,661	112	123
1954: January	46,450	80,688	23,902	46,382	20,749	13,622	22,521	107	120
February	46,714	80,390	23,620	46,115	22,016	13,972	22,421	109	119
March	47,094	80,093	24,064	45,774	22,859	13,900	22,563	105	121
April	47,636	79,516	24,418	45,183	23,017	14,242	22,690	111	120
May	46,914	79,372	23,978	44,798	22,819	14,044	22,804	108	121
June	47,779	79,000	24,260	44,535	22,876	14,439	22,600	112	122
July	47,417	78,349	24,055	44,194	22,551	14,272	22,403	111	124
August	46,717	78,163	23,482	43,929	22,560	14,150	22,451	112	124
September	46,985	77,790	23,612	43,668	24,463	14,214	22,425	107	125
October	46,420	77,564	23,337	43,841	24,054	14,071	21,996	113	124
November[6]	48,233	77,657	24,596	43,811	24,523	14,361	22,128	114	124
December[6]	....	....	....	....	....	....	....	116	......

1—Also includes wholesale, not shown separately in this table.
2—Monthly average for year and total for month.
3—Book value, end of period.
4—Book value, end of period, except annual data, which are monthly averages.
5—New series on retail trade beginning with 1951; not comparable with previous data. See *Survey of Current Business*, September and November 1952, for detail.
6—Preliminary estimates.

Sources: Department of Commerce and Board of Governors of the Federal Reserve System.



Coming Important Changes In Money

By L. A. LUKENS

An entire generation of investors and businessmen has grown up which has known little other than a fiscal, currency and credit system tied to a political regime whose avowed purpose was to control the normal forces of supply and demand. Through a pegged security market, a managed currency and, in practically every field, artificial controls by a Federal bureaucracy, what aforetime was the normal flow of the economy was guided into synthetic channels.

The prime result, consequently, was a firm belief that policies made at Washington were the wellspring of every movement in commerce and the stock market. Even though the theories and methods of nearly a generation were abandoned with the advent of the Eisenhower Administration, the millions who grew up under the old regime appear not to comprehend the change that has taken place. They seem unable to realize that Washington today no longer basically creates the currents of the economy but follows and adapts its policies to the dictates of the natural ebb and flow of the nation's economy.

Thus, even today, active leaders of the nation's commercial and moneyed affairs continue to ask if this or that action by the Federal Reserve Board or the Treasury heralds a new policy; they ask if a permanent or only a temporary change of policy is indicated; they ask what direction future policies will take.

The clear and unmistakable fact is that Washington has ceased to create policies in the sense that they were created for twenty years under the Roosevelt and Truman Administrations. Washington today is seeking to follow, not to lead; that is, Washington is seeking to adapt its policies to the needs of the national economy, not to force the national economy into a pre-determined form. If the business man in any field would attentively read the statement by William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, which accompanies this discussion and take literally what he says, he would be better guided than by any looking to Washington for answers to his questions. He is creating the answers to his own questions. He, once more, is creating the basis of policies.

The "Fulbright Investigation"

There has been in recent months no little concern over the activity of the New York Stock Exchange and over the rapid expansion of business activity in many lines; and some fears have been expressed that the country might be building up to another such chapter as that written in the roaring 'twenties and the whimpering 'thirties. Senator William Fulbright of Arkansas, new Chairman of the Senate Committee on Banking and Currency, has announced that he intends to conduct an investigation of the stock market operations since the early 'thirties, presumably with a view to determining whether further regulatory legislation is needed and with the purpose of exposing any practices now being followed which might lead to such another collapse as that of 1929 and 1930.

The Federal Reserve has increased from 50 to 60 per cent the limitation on bank loans made for the purpose of carrying stocks on margin. In issuing this regulation it is but following the system of credit management originally planned by the framers of the Federal Reserve Act. In all probability, the Federal Reserve action and subsequent ones will prove far more effective than any revelations which a committee presided over by Senator Fulbright makes.

The proposed investigation by Senator Fulbright brings something of an echo of the regime which had passed when legislation and government by investigation seemed to be the order of the era. The Federal Reserve action in gently applying a credit brake to insure against too rapid a pace, therefore, constitutes a return to original principles.

Carter Glass who, as Chairman of the House Committee on Banking and Currency, was one of the chief authors of the Federal Reserve Act and who as Secretary of the Treasury had a strong arm in its enforcement, said concerning that creation: "We instituted a great and vital banking system not merely to correct and cure periodical financial debauches, not simply to aid the banking community alone but to give vision and scope and security to commerce and amplify the opportunities as well as to increase the capabilities of our industrial life."

It is true that in March, 1951 there was established what was known as the Treasury-Federal Reserve Accord, separating these two powerful agencies, yet, so far as the Treasury was concerned, the same policies were followed as those which had ruled since 1933. Now, however, both the Treasury and the Federal Reserve are seeking to pursue the ideal set forth by Carter Glass. It may be regarded as something of a paradox that a Republican Administration should seek so diligently to carry out the ideals of an Act created by a Democratic Administration—the Wilson Administration—ideals from which the Roosevelt-Truman Democratic regime had for so long departed!

One reason why Senator Fulbright seeks an investigation of the stock market is the widespread belief that the Exchange and, to a considerable extent, the money market for the whole country, are ruled by a relatively small group of traders in New York. The Wall Street concept remains as strong as ever in the minds of large numbers of people, including members of Congress. Yet a recent study of trans-

An Exclusive Statement for The Magazine of Wall Street:

ADJUSTING CREDIT AND MONEY TO BUSINESS ECONOMY

By WILLIAM McCHESNEY MARTIN

Chairman, Board of Governors of the Federal Reserve System

The concept of free markets is permitting the forces of the market — the forces of demand and supply — to have some play. Under wartime conditions, of course, the concept of free markets went almost entirely out the window. The decision taken in March of 1951 to unpeg the Government securities market was a decision to restore to the market some of the influence — not all of the influence but some of it — which had been denied by Government policy for a period of nearly ten years. With that decision, Government securities ceased to be interest-bearing money. The processes of the market place began to operate again and the credit mechanism began to function once again as it should as one of the governors on the flywheel of the economy and many people were amazed at the influence and the effect that it unquestionably had, along with other factors, in showing the inflation that was then going on.

Now there is a fiction — I believe it a fiction — that the Federal Reserve can control interest rates completely. I happen to be one of those who still believe that the credit and money basis of this country is formed at the grass roots. I honestly believe that the composite judgments which come up through groups in various towns and hamlets throughout the country have more to do with the basis of credit in this country than has the influence of the Treasury and the Federal Reserve combined, although damaging effects may be felt if we in the Federal Reserve miscast our policy at a given time.

What we are endeavoring to do about the money supply in this country can be described in simple terms: We want the flow of money and credit to be like a river. The river is flowing through the fields of business and commerce. We don't want the water overflowing the banks of the stream and flooding the fields on either side for we don't believe that you can just sit on the banks of this river and get rich by dipping into the stream that is flowing by. Neither do we want the stream to dry up and leave the fields parched. We understand that there has to be irrigation and drainage. But we do see the flow of money and credit as something which must be related and adjusted to the business economy in such a way that there will be an adequate supply without inducing inflationary pressures. That is the basis on which this institution, the Federal Reserve, is established.

Changing shifts in policy emphasis do not necessarily mean that a change in policy direction is emerging, much less that a new policy has been adopted. They may be useful signals, nevertheless, in thoughtful analysis. For by the time the facts of a developing economic situation are sufficiently clear to lead to the adoption of a changed policy directive, this much usually will be apparent: the day-to-day allowances that have been made for uncertainties in the forecasts of reserve availabilities will have begun to be increasingly resolved in the direction indicated by a changed policy decision.

Changes in Margin Rates

10/15/34-1/31/36	25-40%
2/1/36-10/31/37	55%
11/1/37-2/4/45	40%
2/5/45-7/4/45	50%
7/5/45-1/20/46	75%
1/21/46-1/31/47	100%
2/1/47-3/29/49	75%
3/30/49-1/16/51	50%
1/17/51-2/19/53	75%
2/20/53-1/3/55	50%
1/4/55-to date	60%

actions on the New York Stock Exchange for what were selected as representative days, December 8 and December 15, 1954, revealed that 77 per cent of all transactions originated outside New York City.

There is not now a repetition of the situation of the 'twenties when State and small national banks as well as all sorts of firms were sending all the cash they could spare (and more) to the New York call money market but the study showed that individuals in every part of the country are buying and selling on the New York Stock Exchange and, presumably on other lesser exchanges. While margin trading is substantial and has, indeed, increased since last Autumn, it is not in the wildly disorganized condition it was in the 'twenties. There are many purchases for investment rather than speculation. As an indication of who is in the market, the survey showed that transactions by private investors on the Exchange rose from 4.3 per cent of the total volume in 1952 to 10.3 per cent last December. However, the increase in speculation is indicated by a rise in purchases on margin from 34.2 per cent in 1952 to 52.5 per cent last December.

One of the functions of the Federal Reserve is to prevent, as Senator Glass has said, "periodic financial debauches" and, obviously, its action in increasing the limit on margin loans was intended to discourage runaway speculation with relatively cheap money. The new Federal Reserve Regulation imposing the 60 per cent limit was issued January 4 and it is more than probable that there has been a change from the December figures covered by the recent study. The margin increase—if the Federal Reserve is working at all—has reduced the volume of margin dealing.

Responding to Conditions

The vital consideration here is that the Federal Reserve acted not in the sense of establishing some new or different policy but responsive to a condition in the market that had arisen spontaneously from the country as a whole. Thus no new policy is adopted; there is but a normal and almost automatic reaction to an economic condition.

When the Treasury issued its 3¼ per cent bonds early in the Eisenhower Administration there was a good deal of consternation and some businesses felt that they were being made the victims of a harsh new policy. The only harsh new policy was a return to the principlees of Federal Reserve banking and the type of central banking which had prevailed before the twenty-year Roosevelt-Truman era. It was realized that a perilous economic situation stood in need of correction. Pursuant to these same principles, as soon as the corrective steps began to show their effectiveness there were responsive changes in actions at Washington. Neither or any of these actions represented any change of policy; there was only a consistent pursuit of the same continuing policy of shaping fiscal steps in Washington to conform to the vicissitudes of the market!

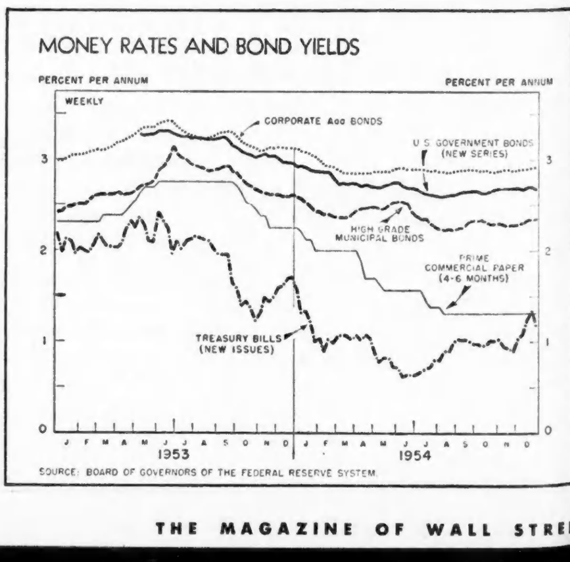
It is interesting to recall that a large segment of the press and, of course, all the labor press, cried to high heaven that the new Administration had adopted a policy of enriching the bankers and other already rich investors by increasing the rates on Government securities. In this connection one may look at the new Budget provisions for the payment of interest on the Public Debt—this process of enrichment so bitterly attacked. For 1956 scheduled payments to holders, rich bankers or anyone else will be $200,000,000 less than for 1955, despite the fact that there has been an increase in the principal of the debt. So the fiscal policy is having an effect the reverse of that critics forecast.

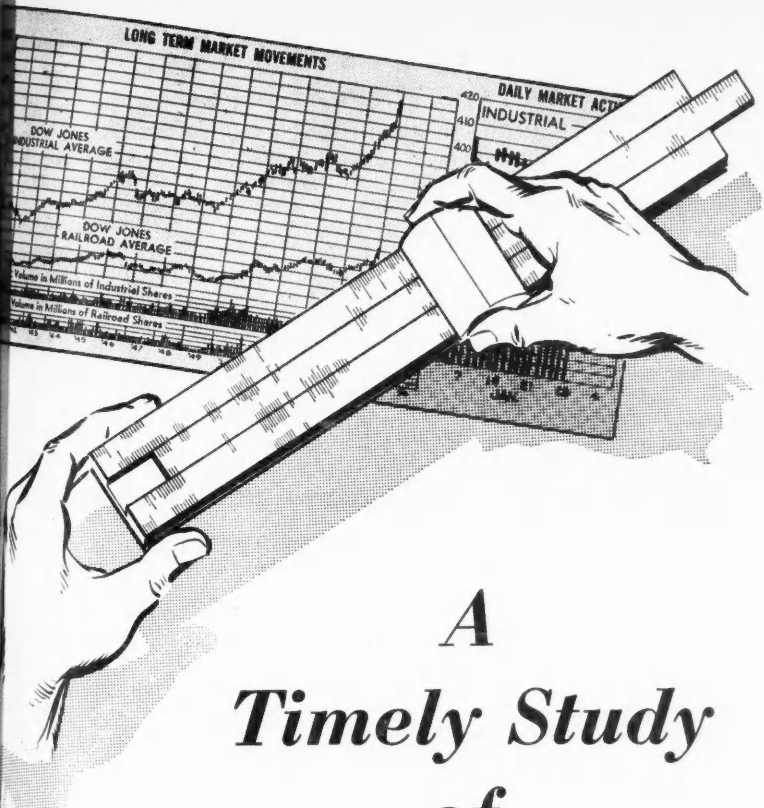
Trend of Money Rates

It may be of value to examine the trend of money rates during the period the Eisenhower Administration has been in office. For 1953 the average rate for prime commercial paper was 2.52%. The average rate on business loans was 3.7% although there was a wide variation in rates for different sized loans. For example the average for loans of $5,000 and under was 5% but was only 3.5% on loans of $200,000 and over. Government bond yields ranged from 2.93% to 3.16% and municipals were 2.72%. The average for non-government bonds was 3.43% in 1953 while industrial preferred stocks showed an average of 4.27% and common, 5.51%.

For 1954 the comparable figures are: prime commercial paper, 1.58%. The average rate on business loans had dropped to 3.6% with a spread from 5% for small loans to 3.4% for those over $200,000. Government bond rates ranged from 2.53% to 2.70% and municipals were 2.37%. The average for non-government bonds in 1954 was 3.16% while industrial preferred stocks showed an average of 4.01% and common 4.66%.

These rates, despite all the furore about the Treasury and the Federal Reserve making money so tight that business was (*Please turn to page* 664)





A Timely Study of Security Values

By J. C. CLIFFORD

To the uninitiated, the price of stocks often seems to be dictated as much by chance (or even caprice on the part of buyers—or sellers) as by the general standards which have been established over the years by the immutable laws of the market place. If the investor should ask why there should be such an enormous difference in the price of the hundreds of stocks listed on the various exchanges when, to casual inspection, there appears to be no such difference in their value, or at least not enough of a difference to justify the wide spread normally found, he may find an answer if he should think of the stock market as a huge merchandising mart in which multifarious goods, with different price tags, are offered for sale. He would expect to find in such an establishment, a great range of prices, based on the quality and usefulness of the goods, but he would be quite familiar with the variety of prices from past experience. So, in the stock market, are the goods, in this case stocks, priced differently, each according to a fairly well defined pattern, established through stock market custom and experience. But, because he is not likely to be so familiar with these standards, he may find himself at a disadvantage in finding his way around.

Earnings the Essential Factor

While the investor naturally views the stock market as a place in which the shares of many different companies in many different industries may be bought and sold, this necessarily complicates the problem of selection when the bewildering assortment of stocks available is considered. He may, however, simplify his task by calling to mind that, despite the great variety of stocks and industries represented in the market, *basically only two things are being sold:* (1) earnings, and (2) dividends. Fundamentally, this is all that should concern the investor, whether he holds stocks in one company or another, or in one industry or another. It all boils down to earnings, or earning power; and dividends. This is what the market is concerned with, and that is what all the price changes are about. By concentrating on these two factors—earnings and dividends—the investor is able to obtain a useful yardstick of the value of his securities, and, consequently, he can reduce a great part of the guesswork which, too often, is the basis of the way in which he goes about selecting his investments.

There is nothing new in this yardstick of earnings and dividends. Ever since time immemorial, stock markets have attempted to price securities on the basis of actual and potential earnings and dividends. What *is* new – or at least it has become new in the post-war period—is the greater importance now attached to earnings than to dividend; and this is being translated into a new set of values which the market has been establishing in the past ten years. The reason for this is that the market places greater emphasis on the potentials in the growth of earning power.

The value which the stock market places on earnings is expressed in terms of the ratio between market price and earnings. Thus, if a stock earns $10 a share and it sells at $100 a share in the market, the ratio is 10 x earnings. Another stock may also earn $10 a share but with a price of $50 a share. The ratio in that case would 5 x earnings. Still another stock may also earn $10 a share but with a price of $200 a share. Its ratio would be 20 x earnings. The basis for the difference in these ratios between different stocks in different industries is the key to modern stock market valuation. How to apply this yardstick is, therefore, an imperative in investing in stocks.

In former years, especially in the 1920's, a ratio of 10 x earnings was commonly considered a fair standard of market value for individual stocks. If stocks sold at 10 x earnings, they were supposed to be selling at approximately the "right" price; any marked de-

viation would be the cause of uncertainty. If stocks sold well above 10 x earnings, they might be "too high;" if they sold well under 10 x earnings they might be "bargains." This was the theory under which many market professionals then operated. Its usefulness has long been exploded.

Today, there is no general norm of valuation for individual stocks such as 10 x earnings; each stock has its own separate norm which is linked, as we shall show, to members of its own group. In other words, the market tends to place a higher or lower standard of valuation, according to the group or subdivision of the group, to which the individual stock belongs. There are exceptions, of course, but when these exceptions occur, special note must be taken of the circumstances and an inquiry is justified as to why the particular stock has departed from the accepted norm. This might be an encouraging sign or a discouraging one, according to the particular developments in the company. In any case, it would be important for the investor to consider.

Price X Earnings

Before we discuss the current standards of market valuation for specific groups and representative stocks in these groups, it would be useful to understand precisely what is meant by the ratio "price x earnings." By this is meant simply that it costs a specific number of dollars to buy a dollar of earning power. If you have to pay $50 a share for a stock on which earnings are $4 a year, it will cost you the equivalent of $12.50 a share to buy each dollar of earnings. But that is based on what the stock *has been earning*. Suppose next year the stock earns $5 a share. Your actual cost will have been only $10 per dollar of earnings. On the other hand, suppose the earnings drop to $3 a share. Your cost then will be almost $17 per dollar of earnings. *What you are buying is earn-*

Market Value of Earnings in Leading Groups

	1953 Net Per Share	Market Price 12/31/53	Price-Earnings Ratio 12/31/53	1954 Net Per Share (Est.)	Market Price 12/31/54	Price-Earnings Ratio 12/31/54	% Change In Net Per Share	% Change In Price-Earnings Ratio	Prospects For Market Appreciation In 1955 (In Order of Selection)
AIRCRAFT MANUFACTURING:									
Boeing Airplane	$ 6.26	23¼	3.7	$11.75	73⅞	6.3	+87%	+70%	5th
Douglas Aircraft	7.73	41¼	5.3	14.70[1]	130	8.8	90	66	4th
Lockheed Aircraft	5.79	27½	4.7	8.50	51⅛	6.0	46	27	1st
North American Aviation	3.72	21⅛	5.6	6.46[1]	51¾	8.0	73	43	2nd
United Aircraft	6.23	46⅝	7.4	7.65	78¼[2]	10.2	22	38[2]	3rd
		Avg.	5.34		Avg.	7.86	Avg.	+47%	
BUILDING:									
American Radiator & S.S.	1.83	13⅞	7.4	2.30	24½	10.6	25	43	4th
Johns-Manville	6.20	65⅝	10.6	5.24[1]	88	15.3	15[3]	44	5th
National Gypsum	2.71	21	7.7	4.50	48¾	10.8	66	40	3rd
Pittsburgh Plate Glass	4.07	54	13.2	4.15	67⅝	16.3	2	23	2nd
U. S. Gypsum	11.88	118	10.0	19.25	229	11.8	62	18	1st
		Avg.	9.78		Avg.	12.96	Avg.	+32%	
CHEMICALS:									
Allied Chemical	5.10	73⅜	14.3	4.80[1]	102⅝	21.3	5[3]	48	5th
American Cyanamid	3.15	47⅝	15.1	3.00	54⅞	18.2	4[3]	20	1st
Dow Chemical	1.58	38¼	24.1	1.42[1]	47	33.1	10[3]	37	3rd
Monsanto	4.90	82¼	16.7	4.39[1]	104	23.6	10[3]	41	4th
Union Carbide & Carbon	3.55	74¼	20.9	3.00	86¼	28.7	15[3]	37	2nd
		Avg.	18.22		Avg.	24.98	Avg.	+37%	
ELECTRICAL EQUIPMENT:									
Cutler Hammer	5.69	40½	7.1	6.00	61½	10.2	5	43	2nd
General Electric	1.92	29⅛	15.1	2.25	46¾	20.7	17	37	4th
McGraw Electric	3.45	34¼	9.9	5.50	55	10.0	59	1	1st
Square "D"	3.01	26⅞	8.9	3.00	45½	15.1	....	69	5th
Westinghouse Electric	4.53	50⅞	11.2	5.40	80½	14.9	19	33	3rd
		Avg.	10.44		Avg.	14.18	Avg.	+35%	
FOOD:									
General Foods	4.66	59⅞	12.9	5.30	76¼	14.3	13.7	10.8	1st
National Biscuit	2.61	36¼	13.8	2.85[1]	43¾	15.3	9.2	10.8	2nd
National Dairy	2.32	32⅝	14.0	2.75	38⅝	14.0	18.5	.....	3rd
Standard Brands	2.90	28⅜	9.7	3.15	39⅛	12.3	8.6	26.7	4th
Swift & Co.	5.72	43⅜	7.5	3.22	47½	14.7	43.6[3]	96.0	5th
		Avg.	11.58		Avg.	14.12	Avg.	+21%	

[1]—Actual. [2]—Does not include Chance-Vought spin-off. [3]—Decrease.

ing power, recent, current and future.

We now see that the ratio is by no means static and that it can shift radically. This necessarily injects an element of uncertainty. However, we have definite things to go by which are measurable, that is to say, recent earnings, and to a more or less definable extent, current earnings. Future earnings, however, especially those over a fairly long period—a year or more—are much more conjectural.

In the accompanying table, we see how the earnings of individual companies in certain major groups are specifically valued according to the price times earnings ratio. These have been figured out for the convenience of the reader for the year-end of 1953 and 1954. While there are exceptions in each group, it will be seen that the groups follow a rather general norm of valuation. Thus, earnings of chemical stocks at an average of 24.98 x earnings are valued much higher than earnings of aircraft companies at an average of 7.86 x earnings; food company earnings at 14.12 x earnings are given a higher market valuation than building stocks at 12.96 x earnings; steel company stocks at 10.98 x earnings are valued somewhat lower than those of the electrical companies, at 14.18 x earnings. The reader may find it interesting to make his own comparison of the other groups. For his convenience, average earnings valuations for each group are shown in the table.

Within each group, certain stocks stand out as departing from the general norm. Thus, in the building group, Pittsburgh Plate Glass at 16.3 x earnings receives a much higher market valuation than most of the others. In the electrical group, General Electric with 20.7 x earnings, stands out. Among the chemicals, Dow with the surprisingly high ratio of 33.1 x earnings, receives a superior market valuation. In the paper group, Scott Paper at 27.8 x earnings seems to be in a class by itself. *(Please turn to page* 661)

Market Value of Earnings in Leading Groups (Continued)

	1953 Net Per Share	Market Price 12/31/53	Price-Earnings Ratio 12/31/53	1954 Net Per Share (Est.)	Market Price 12/31/54	Price-Earnings Ratio 12/31/54	% Change In Net Per Share	% Change In Price-Earnings Ratio	Prospects For Market Appreciation In 1955 (In Order of Selection)
MACHINERY & MACHINE TOOLS:									
Babcock & Wilcox	$ 7.75	43⅝	5.6	$ 9.50	73	7.6	+22%	+35%	2nd
Bullard Co.	6.59	26⅜	4.0	7.50	41¾	5.5	13	37	3rd
Cincinnati Milling Machine	12.77	50½	3.9	11.25	66¾	6.0	12[2]	53	4th
Ex-Cell-O Corp.	7.06	49¼	7.0	10.75	79	7.3	52	4	1st
Ingersoll Rand	3.56	32	9.0	3.70	54	14.5	4	61	5th
			Avg. 5.90			Avg. 8.14		Avg. +33%	
MERCHANDISING:									
Allied Stores	4.92	37½	7.6	5.15	53¼	10.3	4	35	3rd
Federated Dept. Stores	3.74	39	10.4	4.75	56	11.7	27	12	2nd
Montgomery Ward	6.12	56	9.1	5.16	79⅝	15.4	18[2]	69	5th
Penney (J. C.) Co.	4.67	74½	15.9	5.05	86¼	17.0	8	7	1st
Sears, Roebuck & Co.	4.87	62	12.7	5.10	77¼	15.0	4	18	3rd
			Avg. 11.14			Avg. 13.88		Avg. +24%	
PAPER:									
Champion Paper & Fibre	4.13	33½	8.1	4.50	54	12.0	9	48	3rd
International Paper	6.44	56¼	8.7	6.00	88¾	14.7	6[2]	70	4th
Lily-Tulip Cup	4.57	51	11.1	6.25	98¼	15.7	36	41	1st
Scott Paper	1.80	35	19.4	2.20	61⅜	27.8	22	43	2nd
West Va. Pulp & Paper	2.77	24	8.6	2.57[1]	40¼	15.6	7[2]	81	5th
			Avg. 11.18			Avg. 17.16		Avg. +71%	
PETROLEUM:									
Atlantic Refining	5.41	28	5.1	4.40	39¼	8.9	18[2]	74	7th
Gu'f Oil	7.13	46¼	6.4	6.75	66	9.7	5	51	4th
Phillips Petroleum	5.25	53½	10.2	5.20	75	14.4	1[2]	41	2nd
Shell Oil	4.20	38½	9.2	4.40	61¾	14.0	4	52	5th
Socony-Vacuum	5.35	35½	6.6	5.00	54⅜	10.8	6	63	6th
Standard Oil N. J.	9.13	72	7.8	9.50	110⅝	11.6	4	48	3rd
Texas Co.	7.01	57⅝	8.2	7.50	86	11.4	7	38	1st
			Avg. 7.64			Avg. 10.11		Avg. +32%	
STEELS:									
Armco Steel	6.50	32⅞	5.0	7.83[1]	72	9.2	20	84	2nd
Beth'ehem Steel	13.30	50	3.7	13.18[1]	108⅛	8.2	1[2]	121	4th
Inland	6.90	40⅞	5.9	7.92[1]	75¼	9.4	14	58	1st
National	6.68	46⅜	6.9	4.12[1]	65½	15.8	38[2]	129	6th
Republic	9.25	48¾	5.2	7.10[1]	84⅞	11.9	23[2]	128	5th
U. S. Steel	7.54	39½	5.2	6.45[1]	73⅝	11.4	14[2]	119	3rd
			Avg. 5.37			Avg. 10.98		Avg. +106%	

[1]—Actual. [2]—Decrease.

BRICKER AMENDMENT REVIVED

By "VERITAS"

SEN. BRICKER'S amendment to give congress a larger treaty-making (or vetoing) power runs into substantial opposition on the natural disinclination of Americans to change their basic law. They have amended the Constitution in only 21 particulars since the beginning; 10 of those came in a fell swoop immediately after the document was written. But congressmen don't share that reluctance. More than 75 bills have been introduced in the past five years urging that amendments be written, sent to the states for ratification. None passed.

WASHINGTON SEES:

Business and industry had better start bracing themselves for the blow that is generating in the region of the Senate Commerce Committee and will manifest itself in a series of probes calculated to prove that federal regulatory agencies have become the tools of big business.

Senator Warren Magnuson, Washington democrat, who took over the committee chairmanship this year, has a $200,000 program which is intended to do nothing more than mark out the areas of exploration. What is to follow conjures up memories of the Truman Committee and its juicy squeezings of political campaign material.

Magnuson has selected an expansive target: Federal Communications Commission, Federal Power Commission, Maritime Commission, Interstate Commerce Commission, Federal Trade Commission, and Civil Aeronautics Board. They're to be damned if they do, damned if they don't; the Washington Senator has only outlined his grounds for pointing the finger of suspicion but he has indicated that complaints are about equally divided—half directed against actions which have been taken, half against dilatory tactics, delayed decisions, procedural holdups.

Most of the target-commissions have broad discretionary powers and operate in fields loaded with adversary interests who have come to regard Congress as a receptive appellate court.

OREGON'S new senator, Richard L. Neuberger seems likely to out-talk his senior colleague, Wayne Morse, in the current session of congress. Morse has joined the democrats in all but name—and will do that before long, it's rumored. So Neuberger, without his own party as a target must pick a more substantial objective and he's done so already: he has engaged fellow Oregonian Douglas McKay (Secy. of Interior) in a running fight on an issue Neuberger's good at: public vs. private power. Normally a first-term Senator can be ignored. But McKay has found Neuberger can't.

EMBARRASSED Administration fiscal men have faced up to the charge of "sending good money after bad" by asking for a $125,000 deficiency appropriation to enable FHA to review "certain multifamily housing," and "to prevent the dissipation of assets." The amount is necessary, confessed the Budget Bureau, "to recover any illegal windfall profits." But far from going out of business because of recent scandals, FHA is moving so rapidly that $5.3 million has been asked from congress to "permit the processing of the increased volume of mortgage insurance applications."

OPINIONS differ even among the experts as to what the farm economic outlook is; whether it's good or bad. The Joint Congressional Committee on the Presidents' Economic Report heard from John H. Davis, a former Assistant Agriculture Secretary that supply-demand is 'way off; that markets here and abroad are under-developed; that there's too many substandard farm units. USDA Assistant Secretary Don Paarlberg says that prices are turning up, crops excellent, that 25 per cent in farm income is offset by 20 per cent decline in farm production.

As We Go To Press

A sweeping reorganization of the House Appropriations Committee by Chairman Clarence Cannon, Missouri democrat, is regarded as designed to improve the prospects for public power projects funds in the current session of congress. Cannon's reshuffle has placed all public power projects under a new subcommittee on Public Works. Democrats appointed to the new group are almost to a man backers of "low-cost, public-owned power developments." Under the old-line makeup, there were "antis" in both political parties, sufficient in number for shelving purposes.

Pro-utility forces in both political camps were caught by surprise by Cannon's coup. They have protested, to no avail; threaten to kick over the traces but will come up against the disadvantage always faced in bucking a subcommittee-approved bill. A rundown of the names of democrats on the committee suggests the problem private ownership will face: Cannon, Chairman; Kirwin (O.), Rabaut (Mich.), Fogarty (R.I.), Marshall (Minn.), Riley (S. Car.), Evins (Tenn.), Boland (Mass.).

When Gen. Matthew B. Ridgway walked off the Eisenhower reservation with a Challenge to the White House program for cutting military manpower, tongues wagged: Was Ridgway to walk the plank? Was this the proof that unification is an excellent theory, not possible of application? The Army Chief of Staff was more widely quoted on his charge that Eisenhower's plan to cut the walking army imperils security, than he was on his outright attack on the Formosa message. He hadn't been consulted on either, thinks he should have been, was willing to pass over the personnel matter with a note of disapproval, but was emphatically displeased about Formosa.

Answers to the questions posed by Ridgway's dissents were not long delayed. The military head of the Department of Army is eligible for retirement next month. He holds the second highest uniformed charge (second only to Chairman of JCS), it would be easy to let him out a few weeks hence. But Eisenhower is no Truman: there will be no new "MacArthur Incident," no drumming a soldier off the parade ground for exercising a commander's prerogative. Ridgway, it was made clear through Pentagon channels, will be retained in his present status at least until his tour of duty ends. As to the second question, the efficacy of unification, there was more doubt: there has been bickering almost from the start among the three chiefs -- army, navy, air force -- but their quarrel has served to keep the best interests of each branch alive. Each has been pitching for his team.

Admiral Radford, Ike's appointee as JCS chairman, has served as an offset to any notion that the army might be favored under its former chief of staff, Eisenhower; Ridgway fights, as in this instance, for army superiority; both Radford and Ridgway eye with suspicion the upstart Air Force, whose General Twining doesn't worry. He has congress on his side. With alert advocates ready to meet challenges, the President obviously feels he can indulge some differences of opinion, even bordering criticism. That being so, Ridgway is not in danger. But he'll be squelched by congress: the lawmakers have approved Ike's stand on Formosa, will cut manpower.

Watching with interest while the United States proceeds to settle its problems in the accepted American manner, are the governments of the nine autonomous commonwealths within the British Empire. Their Prime Ministers are meeting currently in London with United States defense measures at home and abroad as a major speculation. It all leads to the forthcoming debates in Parliament, due to get under way before month's end. For generations the British line of defense was a fence of ships of all character. Now, she is abandoning the "Queen of the Seas" role in favor of the modern,

hard-hitting nuclear weapons, the swift retaliation, the elements of push-button warfare.

When Parliament met last, the government was under severe attack from the Labour Party. The charge was made that current plans for defense and for retaliation are based on antiquated notions of warfare. But, said the laborites, the costs are in keeping with the most modern military notions. Answer will be that there's been a switch, modeled along the lines of the United States planning: dependence on ships is lessened, planes and atomic weapons are in use or in manufacture. The delays will be traced to the problems of changeover. But the overall yardstick for measurement will be what the United States is doing. Concededly, severe strains in the Pentagon will show up in Britain's planning and spending. And it's possible that the reverse could be equally true.

Real fight will be made by the natural gas and oil lobbies on the issue whether the Federal Power Commission should be forced out of the field of at-the-well gas rate regulation. Both participants are strengthening their forces. Neither seems to be lacking funds. Pipeline companies buy the gas from producing companies, sell it to distributing outfits. They deal with the ultimate consumer, but it's the pipeline price level that controls. It would be supposed that the oil companies would go along with price control in order to put the gas competitor at a disadvantage. But they go on a different thought tack: control of gas prices will lead to similar regulation for oil sales.

On another oil front, the Administration's statement that the sale of offshore oil leases and royalties will yield $6 billion in the next few years has provided a jump-off point for a new drive to enact legislation applying these revenues to solution of school problems. The principle was rejected at the time of the tidelands oil debates and Supreme Court litigation. The facts on revenue were within the knowledge of President Eisenhower as the comments on aid to education were being put into form for congressional messages, presumably; failure to mention them in connection with schools may be taken to mean the White House isn't sold on the idea yet.

Here is an illustration of the importance of a numerical majority in congress, however thin it might be. The oil-for-schools proposition is largely a democratic possession although they do not hold it exclusively. When they had one less party man in the upper house of congress they weren't able to get the legislation onto the track. Now with a "clear majority" of one vote they can, and will, grease the ways. Senator Lister Hill, Alabama democrat, is chairman of the committee on labor and education . He has told his group he wants early hearings and speedy action on this measure and as committee boss under the democrat setup, he'll get it. Hill doesn't intend to brook delays, excused on the ground that the President had a message on education coming later. That, says the Senator, will be helpful in long-range planning, but the problem is immediate, solution cannot wait. (Note: Ike's school message delivered, meeting much opposition.)

President Eisenhower again is in the middle on the subject of jobs-for-republicans. In the home stretch of his four-year term, the President hasn't delivered patronage to the satisfaction of the professionals within his ranks; on the other hand, their constant effort to open more jobs to the GOP has given the democrats ammunition for a campaign charging republican effort to break down the Civil Service system.

His party workers are sending, through channels, the warning that the 1956 campaign will be more difficult to wage if there aren't more signs of "appreciation" for what was done in 1952. The Republican National Committee has 3,000 job applications which have been cleared: deserving candidates whose right to recognition is considered to have been earned by them, or earned by their sponsors. Only a minute fraction of the number of openings arising in the past two years have been filled by selection from the committee file. On the other hand job-hungry party straw bosses have set up a clamor that reflects on their Civil Service viewpoint.

The Central American Upheaval

By V. L. HOROTH

The upheaval in Guatemala last summer seems to have set off a chain reaction which threatens to involve the whole Central American area. In the past, a coup or a revolution in any one of the six Central American Republics would have been shrugged off as a dramatic but fairly usual way for the easy-going "Banana Republics," as some of these countries were popularly known, to change their government. But the Guatemalan affair and the extent of communist infiltration in this Western Hemisphere country revealed that in a Central American revolution these days there may be more involved than mere dramatics. Astride the Panama Canal and controlling the land approach to it, the strategic position of these Republics is of utmost importance for the defense of the whole Western Hemisphere. It is no wonder that aggressive communism has paid special attention to this area, particularly since the social and political instability of the Republics has made its work easier.

While the communists are unquestionably active in the underground, it would be a mistake to ascribe to communism all the political ferment and tension in Central America. As will be seen, the situation is not clear cut in Central America. Some of the countries are run by old-fashioned although enlightened, dictators, as family estates. There is unemployment and grumbling among the younger generation at the slow progress made in the development of the natural resources of these countries. In Central America there are not only communists, but also many admirers of peronism. Argentina and, for that matter, Mexico, have not given up hope of bringing the whole area under their political influence.

Political Ferment Everywhere

For example, the assassination of President Jose Antonio Remon of Panama on January 2, presumably engineered by his own Vice President, may have been a purely personal affair. In his capacity as the former chief of police, Colonel Remon, had made and unmade Panama's presidents for nearly a generation, and consequently must have had many personal enemies. His government was friendly to this country and had successfully renegotiated the agreements with the United States over the rent for the Canal territory. The Treaty also contained a provision depriving several thousand Canal workers of commissary privileges in U. S. maintained stores. Panamanian merchants have always resented this commissary privilege, regarding it as unfair com-

Companies Operating in Central America

American & Foreign Power (subsidiaries)
Panama Power & Lt. Co.
National Power & Lt. of Costa Rica

Braniff Airlines	Metro-Goldwyn-Mayer
Celanese Corp. (Panama)	National City Bank
Chase National Bank	Pan American World Airways
Columbia Pictures (Panama)	Parke, Davis & Co. (Panama)
Container Corp. (Panama)	Patino Mines (Panama)
Esso Standard Oil	Pfizer (Chas.) & Co. (Panama)
General Milk Co. (Nestle, Borden)	Reynolds Metals (Panama)
Goodyear Tire & Rubber (Costa Rica)	Sterling Drug Co.
International Railways of Central America	Texas Company
Mathieson Chemical Corp. (Panama)	Twentieth Century-Fox
	Union Oil Co. of Calif. (Costa Rica)
	United Fruit Co.

petition. On the other hand, for many low paid workers commissary privilege meant the difference between relatively comfortable living and marginal existence. Hence there was ground for dissatisfaction which may have been exploited by a foreign power to unseat a president friendly to the United States.

The hostility between President Figueres of Costa Rica and President Somoza of Nicaragua seems to be based on the more or less justified belief that each of them is supporting exiles planning to overthrow each others' governments. President Somoza was apparently quicker on the trigger and outfitted the dissatisfied Costa Rican exiles more effectively than President Figueres could the Nicaraguan revolutionaries. President Figueres, ao be sure, is left-of-center, but no pro-communist, as General Somoza accuses him of being. He has been bitterly opposed by large landowners because of his socialist and welfare policies that have greatly added to tax burdens and currency instability. The communists, who are found chiefly among the banana workers, have thrown in their lot with the extreme right wing and the exiles.

In Nicaragua, General Anastazio Somoza has been virtually a law unto himself for almost two decades. He has given the country as efficient and stable government as it has ever had, with the result that Nicaragua is today one of the most prosperous Central American countries. The country's credit is good and foreign capital is welcomed. Extensive highway building is being carried out, and much has been done toward stamping out illiteracy. Communism is not tolerated. Nicaragua is becoming another Dominican Republic. But, enlightened or not, there are elements of uncertainty in any dictatorship.

Political Storms in Honduras and El Salvador

In El Salvador, President Colonel Oscar Osorio is to hold office until September 1956. Politically the country is quiet, but there may be some trouble stirring if coffee prices go lower. No unions are allowed among the agricultural workers, who used to be the most receptive to communist propaganda because of their low standard of living. The presidential elections will apparently be fought around the issue of whether the country is to be ruled by a civilian or whether a clique of army colonels is to continue to dictate the country's economic policies. There is a split among the military, with cliques of majors and lesser officers trying to get nearer to the political pork barrel.

Honduras, the Republic which most nearly qualifies as a "banana republic" is living in a sort of political vacuum. In the elections held last Fall, the Liberal Candidate, Villeda, won a plurality but not a legal majority. Nationalists, who put up as their candidate the former dictator, Carias, absented themselves from Congress, which was to have the final word as to the President. That meant that there was no legal quorum to elect the President. Meanwhile the President in power, Galvez, resigned. The country is now ruled without the benefit of Congress by acting President Lozano, who is supposed to call the Constitutional Assembly at the first opportunity. Communists have been until now effectively controlled, and, as in Salvador, it is hoped that their agitation will be countered by housing and social betterment programs in general.

In Guatemala the danger to the existing Government of Colonel Castillo Armas seems to be from cliques of military men rather than from the leftists elements. There has been a strong agitation for the President to scrap labor legislation and to curtail workers' rights. However, the unions have stayed, though their power has been drastically restricted. A new agrarian reform law is to be drafted by May 1; the agrarian reform and the advancement of the illiterate Indian peasantry were the chief agitation point of the communists in the past.

The United Fruit Company — The "Villain" Becomes a Partner

As might have been expected, the largest American enterprise in the area, the United Fruit Company, has been charged by the communist and leftist press as the principal "villain" responsible for Central America's troubles. The Company has been accused of monopolistic practices and of being opposed to land reform and social progress. Nothing is further from the truth. The company has been paying the highest wages in the countries where it is operating; it has financed schools, and it has been instrumental in introducing many other plantation crops, such as sisal, African oil palm, and cocoa, which provide employment when banana crops fail. In view of the perishability of bananas, tropical hurricanes and tropical diseases, such as shigatoga which devastated thousands of square miles of plantings, the Company has been engaged in one of the riskiest businesses in the world. Moreover, the raising of bananas requires huge investments in feeder railways, port facilities, and special ships which none of the Central American Republics could finance. In view of the risky character of its business, the Company rightly resented being milked in much the same was as the American copper companies have been in Chile.

The truth is that the Company created economic wealth and employment where none existed before. Moreover, early last year the Company embarked on a policy which makes the local governments its partners. A beginning was made in Costa Rica where the Company agreed to pay to the Government—after paying all local taxes—some 30 per cent of its net operating profits in that Republic and also to wave exemption from import duties on the equipment and

supplies brought in. Similar contracts were signed with Panama and Guatemala.

Basic Weakness — The Narrowness of Internal Markets

The charge that the United Fruit Company is deliberately "monopolistic" is ridiculous. In Central America any larger enterprise, whether local or foreign, cannot help becoming monopolistic, simply because the internal market is not large enough to support two or three larger enterprises. Except for a few textile mills and packing plants, there are no large-scale manufacturing enterprises in Central America, most of the processing of local foods and raw materials, tobacco, glass and building materials being done in small family enterprises, which, of course, are competitive, but also heavily protected from foreign competition.

In this day and age when the tendency is for companies to combine into larger economic units, the basic weakness standing in the way of economic expansion in almost any Central American country is the narrowness of the local market. The lack of transportation among individual areas of the same country makes the situation worse. With per capita national income less than one-tenth that in the United States, the 10 million Central Americans have a total purchasing power smaller than the city of Cleveland. But the reader must remember that the area of Central America is chopped up into six independent economic units—each with its own currency, economic policies, and tariff barriers. Yet the purchasing power of any one of these economic units—perhaps Panama excepted—is not much larger than that of the city of Paterson, New Jersey.

Dependence on Foreign Capital

The disadvantage of the small size of Central American economies is even better illustrated when it comes to investment. Last November, the inter-American Economic Conference in Rio ventured an opinion that individual Latin American countries must invest at least 20 per cent of their gross national product if they are to maintain a vigorous growth commensurate with the 3 per cent annual increase of their population. On this basis, a country like Honduras would need to invest from $35 to $40 million in the expansion of its economy. This is a small amount these days to distribute among industry, agriculture, public utilities and transportation.

Actually, Honduras invests nowhere near the above amount annually in the expansion of its economy. It could not even finance the building of its own share of the Pan-American Highway. The road connecting the capital with the Pan-American Highway is still not properly finished. In Honduras, as in other Central American Republics, the only hope is therefore that foreign capital will be forthcoming. But private capital has been hesitant and almost entirely confined to commercial enterprises, distribution, and public utilities. The principal source is therefore institutional capital: the Export-Import Bank and the World Bank.

One of the largest developments in Central America, the Lempa River Dam and hydro-electric plant is being financed by the World Bank. Another country, Honduras, is hoping to get a big loan from the World Bank to carry-out a five-year highway and hydro-electric development on the Rio Linda that is to cost some $150 million. Both the Export-Import Bank and the World Bank (*Please turn to page* 666)

Central America: Principal Economic Indicators

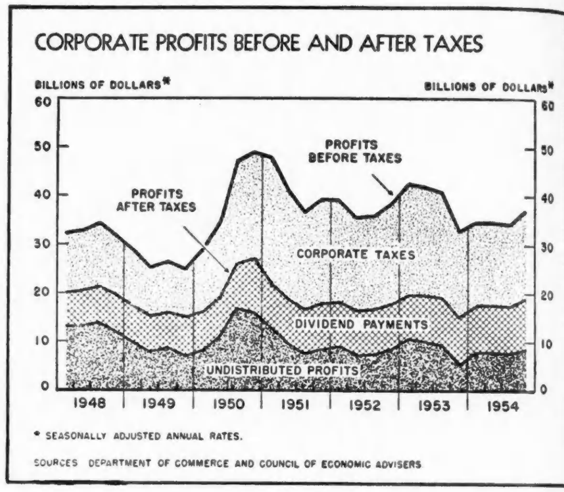
	Area 000 Sq. Miles	Population[1] (mil.)	Per Capita Income	No. of Cars[2] (000)	Gold & Dollar Reserves Od (mil. $)	Cost of Living ('48 = 100)	Currency: Official Rate (in cents)	Currency: Tourist Rate (in cents)	
Guatemala	42.0	3.1	$186[2]	16.8	$36.8	131	100.0	100.0	quetzal
Honduras	43.2	1.6	162[3]	4.0	26.7	139	50.0	50.0	lempira
El Salvador	8.3	2.1	2[illegible]0[5]	11.1	38.9	152	40.0	40.0	colon
Nicaragua	57.1	1.2	180[5]	5.0	17.0	164	20.0	14.1	cordoba
Costa Rica	19.7	.9	160[5]	8.8	18.5	131	17.8	15.0	colon
Panama	28.6	.9	356[3]	14.6	75.1[6]	94[2]	100.0	100.0	balboa
Total	198.9	9.8	$210[5]	60.3					

FOREIGN TRADE

	Overall Foreign Trade Exports (000,000 $) 1953	Overall Foreign Trade Imports (000,000 $) 1953	Trade with U. S. Exports (000,000 $) 1953	Trade with U. S. Imports (000,000 $) 1953	Chief Export Products in 1953
Guatemala	88.9	79.5	70.2	53.2	coffee (77%), bananas (14%)
Honduras	67.1	53.9	58.3	38.8	bananas (61%), coffee
El Salvador	88.8	70.7	73.7	44.5	coffee (86%)
Nicaragua	45.7	43.6	21.0	29.2	coffee (47%), cotton (18%), sesame (6%)
Costa Rica	80.1	73.7	60.0	46.4	bananas (45%), coffee (42%), cocoa (5%)
Panama	17.8	71.0	16.5	46.8	bananas (55%), abaca (7%), cocoa (8%)
Total	388.4	392.4	299.7	258.9	

1—1954. 2—1953. 3—1952. 4—End of 1954. 5—Estimated. 6—Dollar balances in U. S.

Year-End Corporate Statements



—And First Quarter Trends

Part II **By WARD GATES**

The most important feature of company reports for 1954 is that the great majority reflect the impact of the sharp gain in sales which took place almost uniformly throughout industry in the final quarter of the year. In many cases, the resulting gain in earnings in this period was sufficient to have compensated for an indifferent record for the entire nine months preceding.

It is obvious, from a reading of the reports, that as long as sales were declining in the first nine months of 1954, the only thing that prevented a really sharp drop in earnings in this period was lower income taxes, plus whatever savings the companies could effect through operating economies. However, while earnings showed up better, under these conditions, than could otherwise have been expected, this was not a true indication of the underlying comparatively unfavorable operating position of many companies. What was really needed was a sharp gain in sales. When this occurred in the final period of the year, the entire picture changed and the rise in earnings reflected the change immediately. This improvement in the earnings situation, of course, was augmented by the effect of lower taxes. In fact, it may be said that the real benefits of lower income taxes, especially from the lapse of the excess profits tax, did not make their full appearance until sales became high enough to definitely stimulate earnings, as occurred in the fourth quarter. Aircraft companies, on the other hand, were prime beneficiaries right along.

A glance at some of the fourth quarter earnings shown in the accompanying table indicates the force of the upward earnings trend which commenced to manifest itself in that period. This is particularly well illustrated by the major steel company reports which show gains in earnings over the third quarter, ranging from 35% to 100%. The increase in steel operations of from somewhat under 70% in the third quarter to an approximate average of nearly 80% of capacity in the fourth quarter was a highly stimulating factor in earnings. It is important to notice that even a comparatively moderate gain in production, as in this instance, was sufficient to have produced amazing gains in earnings, especially since, through lower taxes, the companies could retain a larger share of earnings than in the preceding year.

While fourth quarter gains in earnings for companies in other industries, with the exception of the aircraft companies, did not reach the dimensions of leaders in the steel industry, they were nevertheless quite substantial, in most cases. In some instances, the extent of gains in earnings was concealed owing to higher charges for accelerated amortization.

Certain industries which had been in a downtrend in 1953 and 1954 failed to show much recuperative power in earnings but as the year ended there were signs that in these industries, too, new life was commencing to stir. One can only go by surface manifestations of improvement in these industries as changes have been too recent to show up in earnings statements. However, there is reason to believe, for

example, that the textiles are entering a more promising period. The same probably can be said of the apparel distributors and manufacturers. The farm machinery industry also looks to moderately better times but this is more likely to become apparent in the Spring.

Companies making the largest gains in earnings are in the following industries: steel, automobile, aircraft, cement, office equipment. Companies making more moderate gains are in the following industries: oil-chemical, building, drugs and soap, glass, paper and electrical equipment. Those whose reports have been more or less negative are in the following industries: textiles, beverage, railroad equipment and some of the auto parts manufacturers. Among the non-manufacturing industries, merchandising is showing distinct signs of improvement; railroads in their December reports showed the effects of a rising traffic and earnings trend; utilities are making more modest gains.

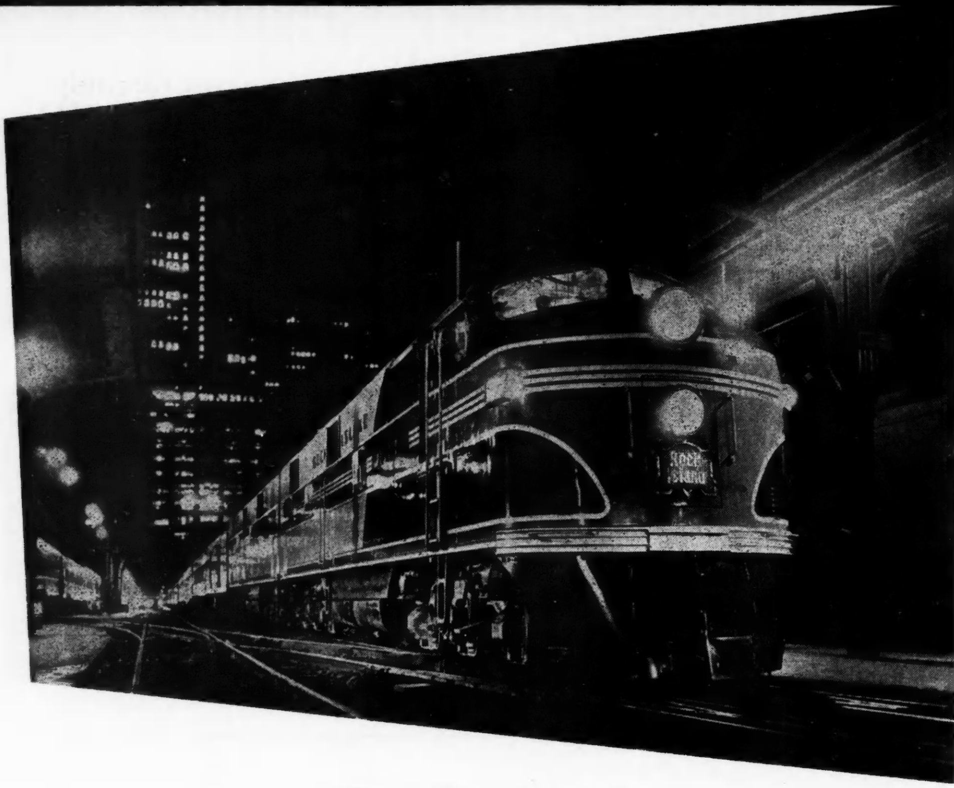
Illustrating the current trend of earnings among major companies, we present the following brief comments on some of the more interesting recent reports:

U. S. STEEL Corp.—Though sales dropped $611 million from the year previous, or from $3.86 billion to $3.2 billion, the loss was almost completely absorbed through the following three factors: (1) smaller wages with a saving of $183 million, lower costs for products and services bought with a saving of $284 million, and lower federal income taxes, with a saving of $133 million. Accordingly, net profit held up very well, considering the lower rate of operations, averaging about 73.2% for the year. Profits were $185 million compared with $222 million the year previous, or $6.45 a share on the common compared with $7.54 a share. Of more immediate interest is the sharp increase which took place in the fourth quarter earnings which amounted to $1.90 a share, compared with $1.45 a share in the third quarter. This was due to the sharp pick-up in mill operations, averaging about 80% as the year drew to a close. While automotive demand is the most important single factor in higher operations, the rise in general demand has also contributed to the larger output. Construction, oil country goods and appliance manufacturers are all increasing their orders. Railroad buying, however, is still well under normal but should increase moderately. At this stage, it is possible to roughly estimate first half 1955 earnings. Based on an estimated 80% average for operations in this period,, earnings should come close to $4 a share. This (*Please turn to page* 666)

Comparative Sales, Earnings & Net Profits of Leading Companies

	Net Sales 1953	Net Sales 1954	Net Profit Margin 1953	Net Profit Margin 1954	Net Per Share 1953	Net Per Share 1954	Net Per Quarter 1954 1st	2nd	3rd	4th
	(Millions)	(Millions)	%	%						
Air Reduction	$ 131.4	$ 123.3	5.1%	5.1%	$ 2.06	$ 1.86	$ .48	$ .49	$ .45	$ .44
Allied Chemical & Dye	545.5	530.7	8.2	8.1	5.10	4.80	1.15	1.41	1.01	1.23
American Can	660.5	652.3	4.6	4.6	2.56	2.53	.41	.66	.99	.47
Armco Steel	588.9	531.2	5.7	7.7	6.50	7.83	1.75	1.89	1.95	2.24
Atlas Powder	58.7	57.6	3.8	4.5	3.59	4.05	1.08	.93	1.04	1.08
Avco Mfg.	428.3	375.4	8.0	9.6	.34	.37	.17	.13	.01	.06
Bethlehem Steel	2,082.0	1,656.8	6.4	8.0	13.30	13.18	2.73	3.04	2.53	4.88
Bristol-Myers	55.4	......	4.5	......	1.44	2:12	.43	.27	.51	.91
Budd Co.	336.0	244.0	3.2	2.5	2.88	1.60	.33	.50	.10	.67
Continental Baking	198.8	212.5	2.8	2.7	3.96	4.01[5]	.74	.76	.91	1.60
Deere & Co.	378.5	319.9	6.5	6.4	3.37	2.76	.07	1.13	.99	.57
Endicott Johnson	140.0	133.3	1.4	1.6	2.23	2.28	......	.99[1]	......	1.29[1]
Freeport Sulphur	48.5	......	17.5	......	3.56	4.20	.82	1.17	1.15	1.07
General Motors	10,027.0	9,825.0[3]	8.3	8.2[3]	6.71	9.08[3]	2.13	2.67	1.79	2.50[3]
Hercules Powder	190.2	187.5	6.1	7.5	4.20	5.10	1.21	1.37	1.31	1.21
Hooker Electrochemical	38.6	44.5	8.7	9.3	.95	1.20	.26	.34	.27	.33
Inland Steel	578.6	537.0	5.8	7.6	6.90	7.92	1.92	2.01	1.37	2.67
International Business Machines	409.9	461.3	8.3	10.0	8.32	11.35	2.47	2.80	2.92	3.16
International Harvester	1,256.1	994.0	4.1	3.6	3.46	2.24	.24	.81	.76	.45
International Shoe	251.0	246.7	3.8	4.1	2.93	3.01	......	1.49[1]	......	1.52[1]
Johns-Manville	252.6	253.1	7.7	6.5	6.20	5.24	.82	1.71	1.47	1.24
Jones & Laughlin Steel	634.3	492.9	4.9	3.3	4.77	3.80	.88	.96	.65	1.31
Kennecott Copper	476.6	423.6	18.8	18.3	8.20	7.19	1.70	2.19	1.46	1.83
Liggett & Myers Tobacco	586.4	548.8	3.9	4.0	5.50	5.30	1.26	1.20	1.46	1.38
National Steel	634.1	484.0	7.7	6.2	6.68	4.12	.88	.90	.84	1.51
Nopco Chemical	19.8	20.8	4.7	6.3	1.88	2.66	.59	.68	.71	.68
Norwich Pharmacal	18.8	20.7	7.7	9.8	1.61	2.27	.31	.52	.79	.64
Ohio Oil	241.7	......	18.0	......	6.63	5.82	1.55	1.42	1.34	1.51
Olin Mathieson Chemical	463.0[4]	468.0[4]	6.8[4]	7.5[4]	2.94[4]	3.11[4]	......	[4]1.50[1]	[4] .67	.94[4]
Oliver Corp.	136.6	128.3	2.0	2.8	1.18	1.61	(d) .05	.55	.36	.75
Owens-Corning Fiberglas	131.7	136.4	4.0	6.1	1.71	2.68	.54	.62	.73	.79
St. Regis Paper	200.3	200.0	8.0	7.4	2.91	2.62	.70	.70	......	1.22[1]
Shell Oil	1,269.5	......	9.0	......	4.20	4.40	1.21	1.10	.95	1.14
Sun Oil	670.7	......	6.9	......	4.68	4.17	......	2.64[1]	......	1.53[1]
Union Carbide & Carbon	1,025.8	923.6	10.0	9.7	3.55	3.10	.74	.70	.74	.92
U. S. Steel	3,861.0	3,250.5	5.7	5.9	7.54	6.45	1.48	1.64	1.45	1.90
Universal Pictures	70.4	77.8	3.7	4.8	2.35	3.58	.71[2]	.87[2]	.87[2]	1.09[2]
Western Auto Supply	178.2	161.6	2.5	2.4	6.05	5.36	.48	1.26	1.72	1.90
Wheeling Steel	217.3	187.5	5.7	5.1	7.49	5.48	.48	1.97	1.03	2.00
Youngstown Sheet & Tube	534.0	433.4	5.5	4.6	9.21	6.02	.89	1.82	1.34	1.98

(d)—Deficit.
[1]—6 months.
[2]—Net for irregular periods.
[3]—Estimated.
[4]—Pro-Forma.
[5]—After deducting accruals equal to $.53 a share.



Intensification of military preparations in the Pacific region may be expected to contribute to more active freight movement on transcontinental carriers. Western roads fared well during the war, when vast amounts of army and navy supplies were shipped to Pacific Coast ports.

Outlook for Lower-Priced Rails

By HENRY NILES

A clear track looms ahead for railroads. Rising industrial activity paves the way for an encouraging expansion in freight movement. Financial benefits develop quickly in the transportation business as volume expands, because rigid overhead costs fluctuate in comparatively narrow limits and provide a high leverage. In light of present indications pointing to further recovery in general business, it would seem likely that major carriers would be favorably affected. Comparisons in earnings should prove especially stimulating in the first six months, inasmuch as a year ago business was declining.

Progress in any industry rarely is uniform, and, in the case of railroads, one should expect to find some groups experiencing greater improvement than others. Eastern carriers, for example, likely will benefit from an expansion in steel operations and in building construction. Roads serving this territory handle substantial coal traffic as well as manufactured goods made from steel and non-ferrous metals. Moreover, building construction represents an important contributor to traffic in areas of large population. Because eastern roads were seriously affected by last year's setback in the steel and automotive industries, the reversal in conditions should have an opposite effect on earnings this year, and comparisons are likely to be more favorable for this reason.

Operating Costs Carefully Watched

Although increased train movements involve added expense, indications point to close control over operating costs. Maintenance expenses were reduced sharply by many carriers last year when traffic fell. Generally speaking, rolling stock and roadbeds have been kept in above-average condition. A moderate amount of under-maintenance can be accepted without seriously impairing efficiency. Rail managements are reluctant to enlarge working forces until they can be convinced that the need for additional manpower is reasonably permanent.

It is far too early, of course, to project possible 1955 results for the industry as a whole. As a matter of fact, only a few preliminary 1954 earnings figures had come to light when this review was prepared. Others will have appeared by the time this article is in print. Meantime, it would seem reasonable to hazard the guess, however, that more encouraging economic conditions would permit a general lowering of the transportation ratio—the most important vital statistic in evaluating rail transportation operations. The lower the cost of train movement in proportion to gross revenues, the more satisfactory the financial outcome for stockholders.

Gross revenues can be expected to expand moderately with the best showing developing in the first six months. In view of unwillingness of management to raise expenses unnecessarily, net income for the year may rise some 10 to 12 per cent over the estimated $615 million for 1954. In this environment, railroad stocks seem likely to retain a good measure

of popularity, since expanding earnings would hold promise of continued generous dividends. Market action of a number of the lower-priced rails has been conspicuously strong in recent weeks, in anticipation of a rise in earnings in coming months that will make a favorable comparison with last year. Furthermore, interest in this group has been stimulated by the rather extraordinary activity in New York Central and Pennsylvania. In the observations below, emphasis is placed on many of the lower priced rail stocks on the theory that market interest well may shift from higher priced stocks to the so-called secondary issues. It will be seen that not all of these stocks are in an equally favorable position.

Baltimore & Ohio has gained widespread public interest for a very good reason. Such outstanding financial progress has been achieved that this once marginal carrier, which barely escaped bankruptcy, has been able to consider plans for a thorough overhaul of its debt structure. Although it may be premature to undertake a complete refunding of the road's $345 million outstanding indebtedness, the fact that discussions have taken place is significant.

Under restrictions imposed by the debt adjustment plan of 1944, dividends are limited until fixed charges can be whittled to less than $22 million annually. Debt reduction gradually has reduced the annual charge to about $24.6 million. Preparations are in progress to accelerate debt reduction through purchase of outstanding obligations in the open market. Reduction of fixed charges to less than $22 million would pave the way for placing the preferred stock on a regular $1 quarterly dividend and liberalizing distributions on the common. This is the favorable background to which the stock has been recently responding.

Chicago, Milwaukee, St. Paul & Pacific, serving primarily an agricultural territory, has been hampered by high operating costs on a property that embraces numerous branch lines in low density areas and by an economy adversely affected by declining farm income. Thus the road is regarded as the least promising of the transcontinental carriers. Progress is being made toward supplanting steam with diesel locomotives in an effort to bring down operating costs.

With indications pointing to more satisfactory results in movement of lumber and livestock this year, the outlook affords basis for a more hopeful attitude. Movement of coal should improve and agricultural shipments likely will compare favorably with last year. Preliminary estimates however suggested that 1954 earnings had proved disappointing, since the showing for the first ten months was well below than of 1953. Directors soon must consider the preferred dividend ordinarily paid annually in March. Whether conditions justify a distribution on the common due in April or May seem rather uncertain at this writing early in February, but this possibility should not be discounted.

Chicago & North Western, probably the most marginal in the Chicago area, has been hampered by adverse agricultural conditions and by burdensome costs of branch lines. Unprofitable commuter traffic in the Chicago area also has posed a problem. The road serves as the eastern end of the so-called overland route to San Francisco connecting with the Union Pacific at Omaha. Profitable operations have been handicapped by the fact that a sizable proportion of traffic is short haul freight. Light density territory and high terminal costs have proved serious obstacles in recent years.

Because of an inability to develop increased revenues to counteract rising expenses, the transportation ratio has held above average. Dividends have been placed in jeopardy by the unfavorable showing, and no payments have been made on the common since 1950. Distributions on the preferred, cumulative only if earned, have varied. The substantial loss for 1954 virtually precludes payments on the senior shares for 1955. Resumptions on the common are not in prospect in the foreseeable future.

Delaware, Lackawanna & Western holders have

Statistical Data on 11 Lower-Priced Rails

	Miles Operated	Operating Ratio 1953	Operating Ratio 1954 11 Mos.	Times Charges Earned After Inxome Tax 1953	Times Charges Earned After Inxome Tax 11 Months 1954	Earnings Per Share 1953	Earnings Per Share 1954	Dividends 1953	Dividends 1954	Price Range 1953-1955	Recent Price	Div. Yield
Baltimore & Ohio	6.1	79.4%	81.9%	2.89	2.15	$ 3.31	$ 4.75[3]	$ 1.00	$ 1.00	40⅜-18⅝	38	2.6%
Chi., Mil., St. P. & Pac.	10.6	83.9	84.3	4.16	......[1]	1.73	2.03[3]	1.00	1.00	22⅜-10	19	5.2
Chi. & North Western	7.9	85.9	88.6	3.16	.18[2]	(d) 1.91	(d) 11.23[3]	......	......	21½-10¼	15	......
Del., Lack. & Western	.9	77.5	83.2	2.23	1.73	.90	2.25[3]	.50	.75	20⅝-10⅜	19	3.9
Erie R.R.	2.3	75.1	81.6	3.83	1.88	2.51	1.78[3]	1.75	1.50	22⅞-16	21	7.1
Gulf, Mobile & Ohio	2.7	70.9	74.4	5.03	3.17	6.87	5.09[3]	2.50	2.00	39¼-26⅜	36	5.5
Lehigh Valley	1.2	77.4	82.4	3.45	1.53	3.20	1.76[3]	......	1.20	22⅝-13	19	6.3
New York Central	10.7	82.8	84.8	1.69	1.07	5.27	1.42	1.00	.50	49 -18⅝	34	1.4
N. Y., N. Hav. & Hart.	1.7	80.5	77.7	2.38	2.50	2.88	6.18[3]	......	......	36 -19⅞	32	......
Pennsylvania R.R.	10.1	83.5	83.9	1.70	1.27	2.81	1.41	1.53	.75	25 -15⅞	24	3.1
Western Maryland	.8	66.7	74.1	3.56	2.98	9.20	10.77	......	......	36½-20	36	......

(d)—Deficit.
1—No provision required for income taxes.
2—Times chgs. and pfd. div. earned, including cont. interest.
3—Before funds.

reason for adopting a more optimistic viewpoint in spite of the rather unsatisfactory 1954 results. Management has shown indications of endeavoring to reduce debt and provide the way for diverting a larger share of income to holders of the junior shares. This road has encountered many problems that have afflicted roads serving the eastern seaboard—high terminal costs and narrow margins on short haul traffic in competition with truckers. Movement of coal to Buffalo and to the industrial area in northern New Jersey accounts for a large portion of gross revenues. The unpromising long-term outlook for anthracite consumption is a handicap.

The road holds some 363,000 shares of Nickel Plate common, which could be realized upon in a debt reduction program. Income for the stock may be expected to improve upon completion of Nickel Plate's plan for elimination of the preferred issue. As Delaware, Lackawanna reduces its annual fixed charges to less than $4 million, scheduled to be accomplished this year upon redemption of Morris & Essex 4½s and 5s, sinking fund charges can be cut substantially as a move to provide larger common dividend coverage.

Erie has achieved encouraging progress in curtailing costly passenger traffic and in supplanting steam power with diesel equipment. Revenues are dependent in large measure on heavy industry manufacturing. Net income dipped last year to $1.78 a share from $4.31 before sinking fund charges. Earnings available for dividends probably approximated $1 a share, but distributions amounted to $1.50, compared with $1.75 in the previous four years.

The road is the smallest of the eastern trunk lines and has been mentioned at times as a logical merger candidate for a carrier serving the rapidly expanding Southwest that might wish to gain entry to the eastern seaboard at the port of New York. Management has displayed good judgment in improvement of rolling stock facilities and in maintenance of facilities. Growth prospects and potential improvement in results seem less dynamic than do those of other eastern lines.

Gulf, Mobile & Ohio has met the challenge of cheap waterway and truck competition through a changeover to diesel operations on its north-to-south system serving the Mississippi Valley area from the Chicago industrial center to the Latin American gateway at Mobile. Encouraging expansion of industry in the South, accompanied by diversification of products, holds promise of growth in traffic. Gains in operating results stemming from adoption of more efficient equipment are unlikely to keep pace with progress of recent years.

With enlargement of iron ore traffic from Venezuela through the port of Mobile to Birmingham, prospects for this carrier have improved in the last year or two. A letdown in the steel industry's output helped explain a drop in earnings last year to about $4.75 a share from $6.87 in 1953, both after sinking funds. Dividends at the annual rate of $2 a share appear amply protected and a recovery in net income this year would hold out hope of a year-end extra of 50 cents, such as paid in 1953.

Lehigh Valley has made striking headway in countering adverse conditions in its territory, especially truck competition for short haul freight and high terminal costs. Dependence on anthracite has been reduced and greater traffic diversification has been attained. Financial position has been bolstered by sale of properties in and near Buffalo, where a new outlying station has been constructed.

A higher production rate in steel plants should boost traffic this year. With increased receipts and lower sinking fund charges, net available for common dividends may be expected to increase. Net after sinking funds last year may not have shown a great deal of excess over the $1.20 paid in dividends, but the payment to stockholders this year should be more amply covered. Pennsylvania holds almost 500,000 shares and Wabash about 265,000 for a total of approximately 50 per cent of the outstanding 1,497,050 shares.

New York Central, linking Chicago with New York is a major industrial road in the East. Lines serve the industrial Middle West and provide transportation for the Great Lakes communities to the port of New York. Traffic includes coal, steel, automobiles and other manufactures. Substantial non-operating income is derived from real estate properties in New York and from investments in carriers such as Pittsburgh & Lake Erie, Reading and other roads.

Institution of operating economies initiated by the new Young management which seized control almost a year ago point to the likelihood of improvement in earnings this year. Progress has been achieved in minimizing the adverse effect of passenger traffic. Full benefits of operating economies have not been felt. Confidence in progress was evidenced by the management's decision to order a dividend of 50 cents for the first quarter, holding hope of further payments of like amount in succeeding quarters.

New York, New Haven & Hartford, serving New England, is a typical victim of intensive truck competition and costly passenger service. Management has had difficulty for years in providing adequate service for short haul freight movement at rates allowed by regulatory authorities. The new management which took control of the

(*Please turn to page* 669)

Freight Revenues (1953)

(Percentage Received from Product Classification)

	Products of: Agriculture	Animals & Prod.	Mines	Forests	Mfrs. & Misc.	All LCL Freight
Baltimore & Ohio	5.5%	2.9%	36.0%	2.2%	49.5%	3.9%
Chicago, Milw., St. P. Pac.	17.2	6.9	12.0	12.7	47.8	3.4
Chicago & North Western	15.2	5.8	20.3	7.3	46.6	4.8
Delaware, Lack. & Western	10.4	6.0	20.9	1.6	57.6	3.5
Erie R.R.	8.5	6.5	16.4	2.7	60.3	5.6
Gulf, Mobile & Ohio	15.1	1.6	14.4	9.2	56.9	2.8
Lehigh Valley	9.5	3.9	22.8	1.9	59.9	2.0
New York Central	6.5	1.3	58.5	2.3	30.7	.7
N. Y., New Haven & Hart.	12.0	5.5	11.8	4.6	66.1	....
Pennsylvania R.R.	7.6	3.0	29.0	2.5	53.0	4.9
Western Maryland	5.6	2.8	49.7	2.8	39.1	....

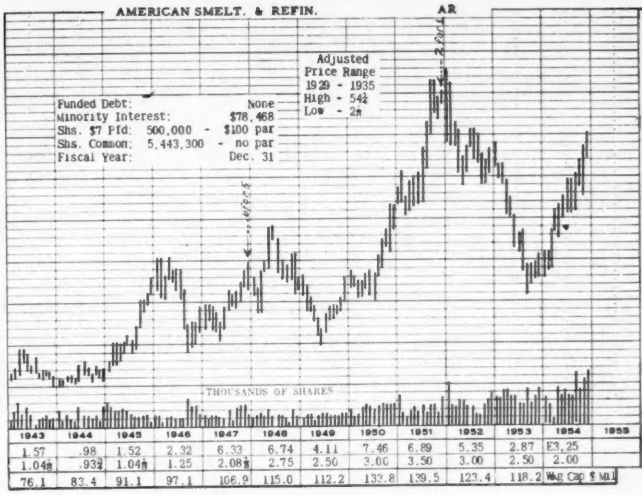
Five Stocks Likely To Increase Dividends

By OUR STAFF

While price movements on the New York Stock Exchange carried a number of common stocks to record high levels during the last year, an equally outstanding 1954 development was the number of issues in diversified industries placed on a higher dividend basis. These dividend increases were accomplished by special or year-end extra distributions, or more generally, by larger regular quarterly payouts. The latter action is particularly significant, indicating the establishment of a regular rate of payment as few companies care to boost regular dividend payments unless there is reasonable certainty that the higher rate can be maintained.

Expiration of the excess profits tax was a factor, but not the only one, in bringing about the 1954 wave of dividend liberalization. Other contributors have been the growing affluence through the substantial flow of cash into corporation treasuries because of fast amortization write-offs; increased liquid assets as capital expenditures tapered off and the confidence in 1955 business conditions.

This trend toward higher dividend payments is likely to continue. Evidence of this is had in the action of a number of companies increasing dividend rates since the beginning of 1955. In some instances, anticipated favorable dividend action has already brought about appreciable price gains in certain issues, the market being extremely sensitive to such expected developments. While other potential candidates for higher dividends have also moved up in price they continue to sell at attractive levels from the standpoint of yield and possible further price appreciation. Among these issues, we list American Smelting & Refining, National Gypsum, Safeway Stores, Socony-Vacuum, and Southern Pacific. We present brief analysis, together with pertinent statistical data on these five companies on this and adjacent pages.



AMERICAN SMELTING & REFINING CO.

BUSINESS: This company, the largest smelter and refiner of primary lead produced in this country, together with important amounts of zinc, copper, gold and silver is also a large producer of lead, zinc and copper as well as sizable amounts of gold and silver from its own large mine holdings and those leased or managed located in the U.S., Mexico, Australia and Peru. It has a large asbestos deposit, now being readied for operation, in Canada and holds investments in Kennecott Copper, Revere Copper & Brass, General Cable, Cerro de Pasco, and other companies.

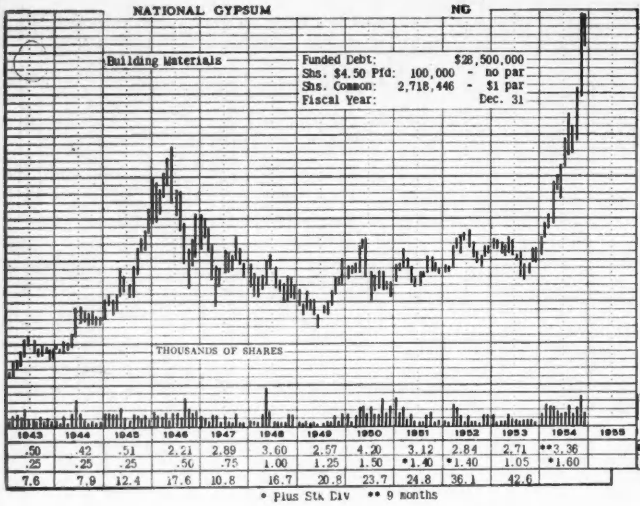
OUTLOOK: American Smelting & Refining, one of the generally more prosperous companies in the nonferrous metal industry as a result of earnings from its own operations and income from its large investment holdings, has maintained a liberal policy as to dividends on its own stock for a number of years, until 1953. It was then that the severe drop in lead and zinc prices reduced earnings to $2.87 from $5.30 a share for the common stock in the preceding year. This decline, coupled with the necessity of carrying increased metal inventories and the need for cash for capital expenditures caused the regular quarterly dividend in the final half of 1953 to be cut from 75 cents to 50 cents a share. This lower rate was maintained through all of 1954. Since then, there has been a material change for the better in earnings, reflecting an upswing in lead and zinc prices, more ilberal depletion allowances granted zinc and lead producers, and the company's new Silver Bell, Arizona, mine, going into production last May with a scheduled capacity of 18,000 tons of copper annually. For the 9 months to Sept. 30, 1954, net income, despite a third quarter labor stoppage of four weeks duration at the Garfield smelter, increased to $2.32 a share from $1.67 for the like 1953 period, with the likelihood that 1954 final quarter results pulled net for the year up to approximately $4 a share. Such a showing could be materially improved in 1955 with lead and zinc prices holding at present levels and copper commanding its current price of 33 cents a pound, compared with recent 30 cents and the former OPS regulated price of 24½ cents a pound.

DIVIDENDS: Except for the year 1922 and 1933 through 1935, payments have been made on the common stock in each year since 1904.

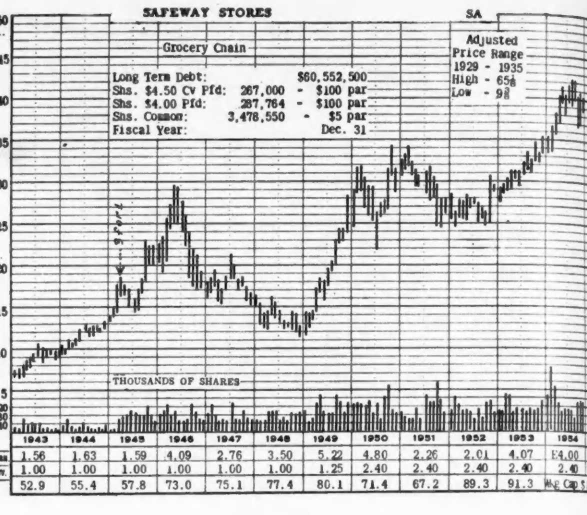
MARKET ACTION: Recent price of 45½, compares with a 1954-55 price range of High—47¾, Low—27⅞. At current price, the yield is 4.3%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 42,591	$ 40,522	—$ 2,069
Receivables, Net	17,806	26,495	+ 8,689
Inventories & Supplies	51,858	114,842	+ 62,984
Adv. to Cust. on Ores, etc.	1,210	718	— 492
TOTAL CURRENT ASSETS	113,465	182,577	+ 69,112
Net Property	46,858	124,775	+ 77,917
Investments	27,918	42,662	+ 14,744
Other Assets	5,740	13,825	+ 8,085
TOTAL ASSETS	$193,981	$363,839	+$169,858
LIABILITIES			
Accts., Wages & Drafts Pay.	$ 15,137	$ 27,222	+$ 12,085
Accruals	1,539	4,196	+ 2,657
Tax Reserve	13,314	34,848	+ 21,534
TOTAL CURRENT LIABILITIES	29,990	66,266	+ 36,276
Other Liabilities	1,155	5,426	+ 4,271
Reserves	31,744	3,830	— 27,914
Preferred Stock	50,000	50,000	....
Common Stock	43,620	123,137	+ 79,517
Surplus	37,472	115,180	+ 77,708
TOTAL LIABILITIES	$193,981	$363,839	+$169,858
WORKING CAPITAL	$ 83,475	$116,311	+$ 32,836
CURRENT RATIO	3.7	2.9	— .8



* Plus Stk Div ** 9 months



NATIONAL GYPSUM COMPANY

BUSINESS: The company, owning vast lime and gypsum deposits in this country and Canada, and operating strategically located manufacturing plants, is the second largest producer of gypsum-based products, including varied types of wallboard, lath, sheathing and plasters. Among other products are metal lath and accessories, acoustical materials, rock wool, asbestos roofing and shingles, and lime and gypsum for the agricultural, chemical, and other industries.

OUTLOOK: Preliminary figures covering 1954 operations indicate record net sales at approximately $126 million, up by about $8 million from the previous year, with net earnings rising to a new peak around $4.50 a share for the common stock. This compares with $2.71 a share earned in 1953, and $2.84 reported for 1952, reflecting the growth in markets for the company's increasingly diversified products and its expansion through acquisition of manufacturing facilities, increased production capacity, and developing additional gypsum deposits, one of which in Nova Scotia will be ready for full-scale quarrying operations this Spring, and another in Indiana now being equipped for low cost operation to furnish raw material to a modern plant scheduled for completion by mid-1955 to supply the growing Central West market. These later developments are part of a $37 million expansion program scheduled for completion by mid-1958, and continuing the company's intensive efforts in the postwar years to efficiently integrate operations, and affect increasingly satisfactory profit margins through increased sales and lower operating costs. Its achievements along these lines is reflected in net sales growth from $38 million in 1946 to last year's record high, with per share earnings more than doubled, and cash dividends being raised from 50 cents for all of the earlier year to 50 cents quarterly, plus 2% in stock, paid last January 3. The outlook for 1955 is one of increased earnings and the likelihood of another increase in the cash dividend rate, especially in view of the company's strong finances.

DIVIDENDS: Payments have been made in each year since 1939, and since 1951 have been supplemented by an annual distribution of 2% in stock.

MARKET ACTION: Recent price of 49½, compares with a 1954-55 price range of High—55¾, Low—20¼. At current price, the yield, exclusive of stock dividend is 4%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 4,318	$ 23,225	+$ 18,907
Receivables, Net	2 258	11,920	+ 9,662
Inventories	3,219	14,067	+ 10,848
TOTAL CURRENT ASSETS	9,795	49,212	+ 39,417
Net Property	12,984	54,361	+ 41,377
Constr. Costs, etc.	1,677	5,993	+ 4,316
Investments	118	.....	— 118
Other Assets	955	1,925	+ 970
TOTAL ASSETS	$ 25,529	$111,491	+$ 85,962
LIABILITIES			
Accounts Payable	$ 775	$ 3,570	+$ 2,795
Accruals	752	1,881	+ 1,129
Tax Reserve	286	1,105	+ 819
TOTAL CURRENT LIABILITIES	1,813	6 556	+ 4,743
Cost-Plus Contr.	1,678	2,544	+ 866
Reserves	268	552	+ 284
Long Term Debt	5,414	28,500	+ 23.086
Preferred Stock	6,498	10,000	+ 3,502
Common Stock	1,381	2,718	+ 1,337
Surplus	8,477	60,621	+ 52,144
TOTAL LIABILITIES	$ 25,529	$111,491	+$ 85.962
WORKING CAPITAL	$ 7,982	$ 42.656	+$ 34.674
CURRENT RATIO	5.4	7.5	+ 2.1

SAFEWAY STORES, INC.

BUSINESS: Operating approximately 1,997 stores, many of the supermarket type, in 23 of the United States and the five Canadian provinces, Safeway Stores is the world's second largest retail food concern. Together with its subsidiaries, it also operates a number of bakeries and plants for the manufacture or processing of ice cream and other dairy products, fruit and vegetable canning, meat slaughter, coffee roasting, soap, jam and jellies, soap, and other products. The company has also developed and is expanding the most modern and efficient nation-wide distributing system.

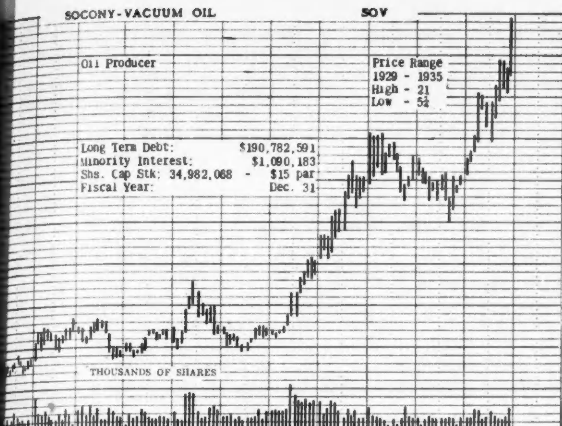
OUTLOOK: Again, as in the five previous years, Safeway's consolidated 1954 revenues set a new high record, reaching, on the basis of preliminary figures, $1,850 million. This would compare with $1,751 million, the former all-time peak set in 1953, and approximately $650 million greater than consolidated revenues of 1949. The steady growth in Safeway's operations in the last five years reflects its consistent policy of strengthening its position in the retail food field by modernization of older units, the closing of others, and its program calling for the construction annually of approximately 100 new retail locations, as well as providing other facilities required to handle properly the increased sales volume. This plan calls for the erection of vast food distribution centers, several of which are already in operation, designed to serve quickly and economically retail outlets in each operational zone in this country and Canada, thus reducing handling and transportation and other costs which should be reflected sharply in greater profit margins. Net earnings for 1954, estimated at $3.82 a share on 3,405,817 shares of common stock outstanding compares with $4.31 a share earned in 1953 on an average of 2,906,979 outstanding shares, the increase in shares being accounted largely by the conversion into common stock of the 4½% convertible preferred called for redemption on April 1, 1954.

DIVIDENDS: Payments have been made on the common stock without interruption for the past 29 years. The present rate of $2.40 a share annually has been maintained in each year since 1950, having been increased from $1.25 a share paid in 1949.

MARKET ACTION: Recent price of 48 compares with a 1954-55 price range of High—48½, Low—38¼. At current price, the yield is 5%.

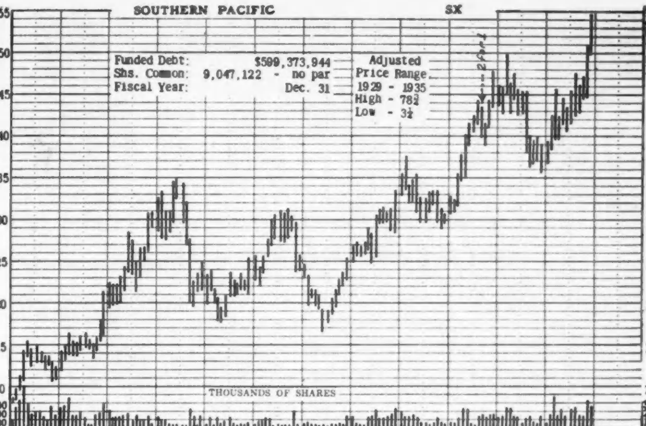
COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1944	June 19 1954 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 20,023	$ 52,954	+$ 32,931
Receivables, Net	3,065	5,938	+ 2,873
Inventories	55,359	142,337	+ 86,978
Prop. due & held for sale	....	36,061	+ 36,061
TOTAL CURRENT ASSETS	78,447	237,290	+ 158,843
Net Property	21,857	102,443	+ 80,586
Investments	208	1,165	+ 957
Other Assets	1,656	9,537	+ 7,881
TOTAL ASSETS	$102,168	$350,435	+$248,267
LIABILITIES			
Debt Payable	$ 4,300	$ 39,775	+$ 35,475
Accounts Pay. & Accr.	17,649	81,218	+ 63,569
Tax Reserve	793	9,110	+ 8,317
Div. Payable	261	2,676	+ 2,415
TOTAL CURRENT LIABILITIES	23,003	132,779	+ 109,776
Long Term Debt	16,600	45.565	+ 28.965
Preferred Stocks	20,923	61,719	+ 40,796
Common Stock	9,943	17,392	+ 7,449
Surplus	31,699	92,980	+ 61,281
TOTAL LIABILITIES	$102,168	$350,435	+$248,267
WORKING CAPITAL	$ 55,444	$104,511	+$ 49,067
CURRENT RATIO	3.4	1.8	— 1,6



	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
EARN.	2.00	1.36	1.87	3.13	4.18	3.09	4.03	5.09	5.27	5.29	**3.65	
DIV.	.75	.65	.75	1.00	*1.00	1.10	1.35	1.80	2.00	2.25	2.25	
Wg Cap $ Mil	280.5	274.2	266.0	265.6	270.3	285.2	314.5	348.6	463.0	477.7		

* Plus Stk Div. ** 9 months



	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
EARN.	7.74	4.87	4.39	3.35	4.43	5.14	4.04	6.28	5.36	6.92	6.85	E5.50	
DIV.	1.00	1.25	1.62½	2.00	2.00	2.25	2.50	2.75	2.75	2.87½	3.00	3.00	
Wg Cap $ Mil	91.3	80.3	112.2	102.5	89.6	101.7	85.6	113.4	122.9	130.5	99.6		

SOCONY-VACUUM OIL CO., INC.

BUSINESS: Through subsidiary and affiliated companies and its own operations, Socony-Vacuum constitutes a completely integrated oil company, producing crude oil and natural gas, operating refineries, pipelines, marine transportation facilities, and wholesale and retail distributing stations and equipment throughout the entire U.S., in Canada and other countries of the free world.

OUTLOOK: Last year, holders of Socony-Vacuum common, the company's only outstanding capital stock, received $2 a share in dividends, paid on a 50-cent quarterly basis, plus a year-end extra of 25 cents, bringing the year's total distribution to $2.25 a share. Payments were held to this rate, notwithstanding earnings in the three preceding years averaged $5.23 a share, with net for 1953 reaching an all-time peak of $187.2 million, or $5.35 a share. This was more than 2⅓ times 1954 dividend distributions. Estimating 1954 net earnings at $5 a share would indicate that the current dividend, including the 25-cent year-end extra, was covered approximately 2¼ times, giving renewed rise to the expectation that stockholders would be in line for more liberal dividend treatment. Aside from this possibility, Socony-Vacuum has additional appeal because of its high quality as a stable dividend payer and its long-term growth potential, the base for which is being steadily broadened by the company's vast capital expenditures for expanding crude oil and natural gas reserves, increasing refinery capacity and improving efficiency and reducing costs. Within the last six years, these expenditures have totaled approximately $1,300 million, while at the same time it has maintained a strong financial position, its cash and marketable securities holdings totaling $306 million at the 1953 year-end, with net working capital on the same date amounting to $477.7 million.

DIVIDENDS: Payments in 1954 duplicated those of 1953 with the 25-cent year-end extra representing an increase from a total of $2 a share paid in 1952. The last stock dividend, amounting to 2%, was paid in 1948.

MARKET ACTION: Recent price of 53, compares with a 1954-55 price range of High—54⅞, Low—35¼. At current price, the yield is 4.2%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash	$ 48,341	$ 52,518	+$ 4,177
Marketable Secur.	130,392	253,627	+ 123,235
Receivables, Net	90,969	182,575	+ 91,606
Inventories & Supplies	127,029	274,929	+ 147,900
TOTAL CURRENT ASSETS	396,731	763,649	+ 366,918
Net Property	511,462	1,069,331	+ 557,869
Investments	141,936	313,480	+ 171,544
Other Assets	7,840	7,996	+ 156
TOTAL ASSETS	$1,057,969	$2,154,456	+$1,096,487
LIABILITIES			
Debt Payable	$ 3,069	$	—$ 3,069
Accounts Pay. & Accr.	76,209	193,800	+ 117,591
Tax Reserve	36,943	92,114	+ 55,171
TOTAL CURRENT LIABILITIES	116,221	285,914	+ 169,693
Other Liabilities	5,742	6,918	+ 1,176
Reserves	119,699	50,823	— 68,876
Long Term Debt	115,257	190,782	+ 75,525
Capital Stock	475,627	532,683	+ 57,056
Surplus	225,423	1,087,336	+ 861,913
TOTAL LIABILITIES	$1,057,969	$2,154,456	+$1,096,487
WORKING CAPITAL	$ 280,510	$ 477,735	+$ 197,225
CURRENT RATIO	3.4	2.6	— .8

SOUTHERN PACIFIC COMPANY

BUSINESS: The Southern Pacific Transportation System, comprising 12,400 miles of main track, extends from Ogden, Utah, the Gateway to the West, to Portland, Ore., and along the Pacific Coast to San Francisco and Los Angeles. The lines also serve El Paso, Houston and Galveston, Texas, and points along the Gulf Coast to New Orleans. An extensive rail network serves a number of points in New Mexico and Arizona and an additional 1,228 miles of track solely or jointly controlled companies serve points in Mexico and the U.S.

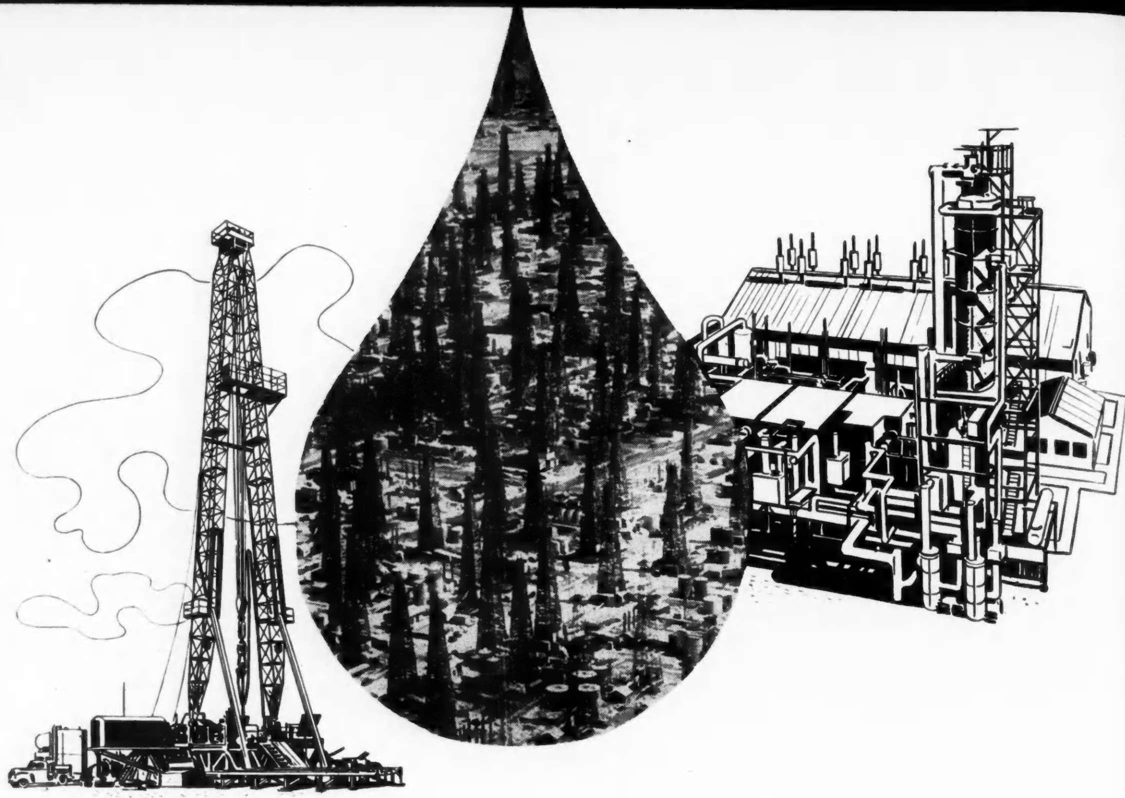
OUTLOOK: Southern Pacific, the second largest rail transportation system from the standpoint of mileage operated, and ranking third on the basis of revenues, appears to be in a good position to increase its dividend on the common stock from the current $3 a share annual rate. Estimates of 1954 operating results put consolidated net income at close to $48 million, or about $5.30 a share. Although these earnings would fall below the previous year's $62 million, equal to $6.85 a share, they would still provide good coverage for a higher dividend than the 75-cent quarterly payments made throughout 1954. Bolstering the outlook for a more liberal payout of earnings is the strong cash position of the company and the improved 1955 outlook for at least a 5% gain in operating revenues. As of Nov. 30, last year, the transportation system reported on hand $128 million in cash, temporary cash investments and special deposits, while net current assets totaled $98.7 million. The outlook is further improved by the continued industrial and population growth of the territory served which has already been a tremendous factor in widening diversification of freight traffic and providing greater stability to operations. To this outlook must be added the benefits which should accrue from the heavy outlays, amounting to over $400 million in the last five years, for transportation facilities, including dieselization, classification yard modernization and expansion, centralized traffic control and other improvements to increase operating efficiency and better the company's position to liberalize dividend policies.

DIVIDENDS: Payments of $3 a share annually were maintained throughout 1954 and 1953, that rate being established following the 2-for-1 split in mid-1952.

MARKET ACTION: Recent price of 54¾, compares with a 1954-55 price range of High—56¾, Low—36⅝. At current price, the yield is 5.4%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 180,000	$ 134,762	—$ 45,238
Receivables, Net	91,377	47,467	— 43,910
Materials & Supplies	33,464	27,408	— 6,056
Other Current Assets	1,417	17,323	+ 15,906
TOTAL CURRENT ASSETS	306,258	226,960	— 79,298
Road & Equipment	1,534,966	1,975,988	+ 441,022
Donations & Grants	cr 21,138	cr 41,280	+ 20,142
Accrued Deprec. & Amort.	cr 217,485	cr 365,764	+ 148,279
Res. for Adj. of Invest.	cr 137,384	cr 91,234	— 46,150
Investment & Funds	286,791	265,701	— 21,090
Other Assets	41,503	11,481	— 30,022
TOTAL ASSETS	$1,793,511	$1,981,852	+$188,341
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 225,869	$ 127,309	—$ 98,560
Other Liabilities	562	806	+ 244
Unadjusted Credits	53,391	31,836	— 21,555
Long Term Debt	563,235	599,374	+ 36,139
Amoun's Pay. to Affil. Cos.	17,209	31,847	+ 14,638
Capital Stock	383,582	424,875	+ 41,293
Consolidated Adjustment	67,083	41,682	— 25,401
Surplus	482,580	724,123	+ 241,543
TOTAL LIABILITIES	$1,793,511	$1,981,852	+$188,341
WORKING CAPITAL	$ 80,389	$ 99,651	+$ 19,262
CURRENT RATIO	1.3	1.7	+ .4



Companies With a Big Stake in Williston Basin

By JAMES T. ROBERTS

From eastern Montana across prairie and badlands into the western Dakotas and northward into portions of Canada's provinces of Manitoba and Saskatchewan lies an area comprising approximately 120,000 square miles. This is the oil-rich Williston Basin.

Farther north, about 300 miles from the Canadian-U. S. border are the Leduc oil field, discovered in 1947, and the Redwater field where the first well was brought in in 1948. These two discoveries, both in the vicinity of Edmonton, Alberta, gave impetus to extending leasing and exploratory work southward which lead to the Williston Basin, the Canadian subsidiary of *Standard Oil of California* finding the first oil in producible quantity at Virden, Manitoba in January 1951. *Amerada Petroleum Corp.*, already drilling south of the International boundary, followed Calso's development within a few months by its Beaver Lodge Field discovery in North Dakota. Other discoveries came in rapid succession. Before the year 1951 was spent, five more fields in the U. S. portion of the basin had been opened up. As early as four years ago, it was evident that the Williston Basin would prove to be tremendously rich in crude oil. Since then, estimates of the Basin's potential have been revised steadily upward as dozens of additional fields have been discovered in scattered sections of the area which is now calculated to have crude oil reserves in excess of 2 billion barrels and natural gas deposits in a volume which has yet to be measured.

Potentials of Field

As matters now stand, it is quite possible that the estimate of crude oil reserves in the basin will again have to be revised upward as development progresses. For instance, among the proven productive areas is the Cedar Creek Anticline under active development for the last three and one-half years has steadily increased in importance. The limits of its nine areas productive of oil, have steadily expanded. So far, only a relatively few of the Basin's enormous areas of potential oil-producing lands have been tapped. At the present time, there are approximately 450 producing wells with a daily productive capacity of about 40,000 barrels. That figure is more indicative of the healthy, long-range pace in the develop-

ment of the basin than it is of the potential output. From the inevitable rush of leasing activity and drilling by "wildcatters" merely with hopes for the best, operations have settled down to careful exploration and drilling, largely by the major oil companies. In all probability it will take another five years, maybe longer, to more fully develop the Williston Basin potential. This may ultimately be a producing capacity of several hundred thousand barrels of crude oil and several hundred million cubic feet of "wet gas" daily.

Production, long before it reaches these ultimate figures, is going to require pipelines and crude oil and gas processing facilities on a steadily expanding scale. The first steps in this direction have already been taken by *Standard Oil of Indiana's* construction of a $15 million 30,000 barrel refinery at Mandan, North Dakota, and a 164 mile pipeline to bring crude oil to the refinery from the Beaver Lodge, Tioga and other producing fields in the state. Among other firsts achieved by Standard of Indiana in the Williston Basin were the completion of tank car loading facilities and a products pipeline connecting the Mandan refinery with the company's Moorhead-Dubuque and Dubuque-Whiting lines, its 2,174-mile products pipeline network serving nine midwestern states. The new refinery went on stream last October; a significant development in that it provides the first big market for Williston Basin crude oil.

Also rearing up against the North Dakota sky near Tioga is *Signal Oil & Gas Co.'s* natural gasoline plant for the processing of gases from North Dakota's Beaver Lodge and Tioga fields. This new plant, which went into operation in the latter part of 1954, is regarded as the first of similar gas processing plants that will eventually dot the Williston Basin as production grows to assure an economic scale of operations. Significant too, is that Signal's new plant, along with Standard of Indiana's new refinery, is one more step in the expanding industrialization of the Williston Basin region. This has created heavier freight traffic for the *Northern Pacific Railway* whose extensive rail network covers practically all of North Dakota and traverses the state of Montana. To what extent freight traffic in and out of the region last year added to the road's revenues is problematical, but the volume undoubtedly aided in holding the dip in operating revenues, reflecting the general decline in business, to 5.2%. Net earnings for the year equal to $5.87 a share were off by only 40 cents a share from the previous year.

Northern Pacific stands to gain in other ways from the further development of Williston Basin oil and gas lands. Its land grant area crosses the south-central portion of the basin. These holdings include fee lands and lands with oil and gas rights, the combined total being approximately 3 million acres. At the present time, the road is receiving royalties or participation from 51 oil wells, its portion of production running to about 22,788 barrels on a monthly basis. This number of wells is expected to be substantially increased during the current year, the road having already arranged for the drilling of 39 exploratory wells on its holdings in the Powder River District and the Williston Basin during 1955.

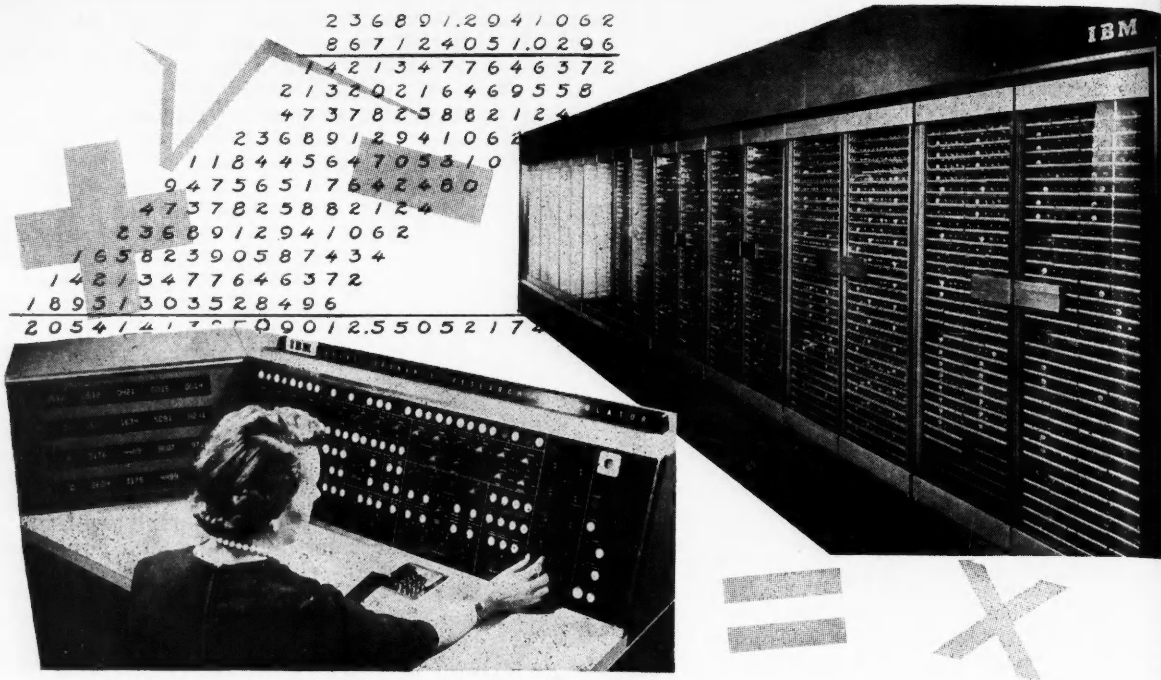
The influx of oil well drilling crews, new housing developments, warehouses and commercial buildings, together with new industries in the region has created a growing demand for electricity and natural gas through the facilities of the *Montana-Dakota Utilities Co.*, which serves virtually all communities in the region with gas, electricity, or both. Net earnings in 1953 of $1.01 a share increased in 1954 to an estimated $1.56 a common share. To keep pace with expanding gas and electricity consumption, Montana-Dakota expended about $10.5 million last year for additional facilities. One of its major completions was the 25,000 kilowatt steam turbine electric generating plant which went into operation last Fall, using as its principal fuel lignite coal from the company's own mines. Further expansion planned for the current year, involving about $7.5 million, is expected to be completed without resorting to outside financing, the necessary funds being supplied by a balance of $4.6 million received from sale of gas properties in the Great Falls, Montana, area, last year and from depreciation reserves and retained earnings.

With increased tempo of development work on the oil and gas lands controlled by Montana-Dakota and the likelihood of further industrialization in the broad area the company serves with electricity and gas there arises the question as to which will record the fastest growth its utility operations or its oil and gas production. By leases, or operating agreements, Montana-Dakota controls (*Please turn to page* 670)

Data on Major Companies Active in Williston Basin

	1953		1954				
	Earnings Per Share	Div. Per Share	Estimated Earnings Per Share	Div. Per Share	Price Range 1953-55	Recent Price	Div. Yield
Amerada Petroleum	$ 5.85	$ 3.00	$ 5.25	$ 3.00	230½-148½	214	1.4%
Mid-Continent Petroleum	7.75	4.00	7.25	4.00	114 - 55½	105	3.8
Montana-Dakota Utilities	.95	.90	1.50	.90	31¼- 17½	30	3.0
Northern Pacific Rwy.	6.27	3.00	5.25	3.00	84 - 52	69	4.3
Phillips Petroleum	5.25	2.60	5.20	3.00[2]	75⅜- 48¾	75	4.0
Shell Oil	4.20	1.50[3]	4.40	2.00[2]	62½- 31⅝	60	3.3
Standard Oil of Calif.	6.61	3.00	6.75	3.00[3]	79¾- 49½	79	3.7
Sanndard Oil of Indiana	4.06	1.25[4]	3.80	1.40[2]	49½- 32¾	47	2.9
S. O. N. J. (Carter Oil)	9.13	4.50	9.50	4.55	119⅞- 67	114	4.0
Sun Oil	4.68	1.00[3]	4.17[1]	1.00[5]	86½- 54¾	69	1.4
Texas Co.	7.01	3.40	7.50	3.75	91 - 49⅝	90	4.1

1—Actual.
2—Indicated 1955 rate.
3—Plus stock.
4—Plus 1/50 share S. O. N. J.
5—Plus 1 additional share for each 4 held.



Electronic Computers:

A NEW SOURCE OF EARNINGS FOR OFFICE EQUIPMENTS

By JAMES A. JACKSON

From a science-fiction term less than 20 years ago, electronics has developed into one of the nation's strong growth industries.

Where relatively only a short time ago, the development of electronic devices was largely in the fields of radio, communications, radar and other offensive and counter-offensive war and defense weapons the industry, during the last nine years, has brought forth many new civilian electronic devices which have had a tremendous impact on industry, air and rail transportation, mass entertainment, banking, insurance, and practically every other field of business. These electronic marvels have already had an effect upon practically every phase of corporate and individual activity and the new devices, many of which are past initial laboratory stages are likely to bring about still greater changes in our entire way of life.

Growth of Electronics

Since the end of World War II, the electronics industry has moved forward with incredible speed. One measurement of its growth is the expansion in sales from about $1.6 billion in 1946, to approximately $8.5 billion in 1954. No other industry, not even the automotive, grew as rapidly. And yet, the highest authorities are agreed that the electronics field is only on the threshold, so vast is its domain, its diversity of markets and its promise of new devices for defense, industrial operations, business and the home.

The expansion of the electronics industry recorded up to this time received considerable impetus from research and engineering progress during the last world war with the rate of progress accelerated during the Korean conflict. Some of the developments in these periods and since have been the ultra-high frequency, or microwave, generators, closed circuit television, the tiny transistor, and the automatic computer and the servomechanism. These are a few of the more significant developments in the electronics field.

The automatic or electronic computer is already well on its way toward revolutionizing business procedures, particularly in the clerical areas of accounting, inventory control, material control, payrolls, sales analysis, billings, and similar tasks.

Today's electronic computer is a vast and intricate unit—although of various sizes—made up of electronic tubes and devices capable of storing up or "remembering" huge quantities of numerical or fac-

ual data which can be recalled in a split fraction of a second. Through means of electronic impulses emitted at speeds ranging as high as one million or more a second, the computer is capable of carrying out complete arithmetic calculations—multiplying, dividing, adding and comparing—instantly, or solving a series of complex mathematical problems in a matter of minutes that would require days of human effort to solve. To gain full advantage from the tremendous computing speeds of many types of computers, information is fed to the machine by magnetic tapes which can introduce or record at rates ranging from several thousand digits up to 70,000 digits a second, depending on the model of computer.

It is obvious that equipment with such powers now being used by the U. S. government, large industrial, banking, insurance, public utility and companies in other fields, will find increasing application throughout industry and commerce, performing myriad tasks faster and more economically than is possible in any other way.

These, however, are not the only fields in which electronic computers are being and will continue to be employed in greater numbers by the Government and corporations. Because of their versatility, various types of computers can also be used for all types of scientific applications and computations in connection with engineering design, geophysical surveys, ballistic analyses and research work. For example, Remington Rand, whose Univac computer was one of the first to come to the general public's attention through its use over television broadcasting of 1952 presidential election returns, has developed and built other models. Among these is a special electronic storage unit for the Civil Aeronautics Authority for use in control of flight plans. Large computers have also proved themselves invaluable in military research. Their use in this area has made it possible to study aircraft and guided missile design, and determining the feasibility before going ahead with construction. This procedure made available by the electronic computer has not only speeded development but cut cost by a substantial amount.

Greater Use for Computers

Other types of computers are coming into greater use in an increasing number of government divisions. *International Business Machines Corp.*, which numbers among its electronic computers the high-powered "702", whose specialty is arithmetic and logic, and the "650" that can do double duty in meeting commercial and engineering requirements, has only recently completed the first of its giant "electronic" brain which has been christened the "Norc", for Naval Ordnance Research Calculator. This big computer, regarded as one of the most versatile computing facilities in existence will take its place alongside other computers now in use in the Computation Laboratory at the Dahlgrem, Va., Naval Proving Ground. Input of the "Norc" is by magnetic tapes loaded from punched cards on separate equipment. These tapes bring data into the computer at the rate of 70,000 decimal digits a second and also serve for any large-scale storage of intermediate results during the calculation. Numbers stored in the calculator cathode ray tube memory can be recalled from any one of 2,000 locations in 8 microseconds or eight millionths of a second, while the "Norc" can produce the answer for addition, subtraction or multiplication as fast as it can read the numbers, a rate of one million digits a second.

IBM's "650" electronic computer, or "Magnetic Drum Data Processing Machine" as it is technically known, now in use by General Electric has many varied applications. This particular unit is the third IBM has delivered and schedules call for more than 400 more of these machines for delivery within the next two years. General Electric plans to use the "650" to analyze complex electrical system generating, transmission, and distribution problems and in other ways to aid in electrical system engineering and scientific analysis. Its ability to remember a tremendous number of complex instructions and execute them with unerring accuracy will, it is expected, shorten to minutes design and system engineering calculations, which previously took hours to compute. Like other electronic computers of IBM, Remington Rand and other companies in the field, the "650" will be on a rental basis of $3,750 a month. This is a modest charge considering the computer will enable application engineers to get system design facts quickly on numerous alternatives, resulting in system improvements estimated to be worth millions of dollars. Engineers also will be freed from many routine calculations, permitting them to spend more time on important developmental work that should bring more efficient electrical transmission and distribution systems, and bring about a reduction in consumer cost of electricity.

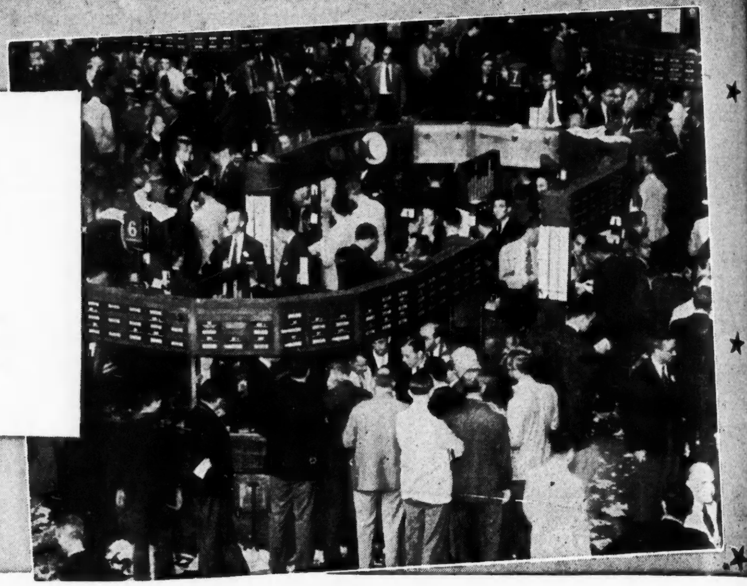
It requires but little imagination on the investor's part to form some idea of the potentials confronting manufacturers of electronic computers in models to fit the needs of not only the government and large corporations but smaller (*Please turn to page* 671)

Statistical Data on Manufacturers of Electronic Computors

	Net Sales 1953 (Millions)	Net Sales 9 Months 1954 (Millions)	1953 Earnings Per Share	1953 Div. Per Share	1954 Estimated Earnings Per Share	1954 Div. Per Share	Price Range 1954-1955	Recent Price	Div. Yield
Burroughs Corp.	$162.0	$126.2	$ 1.44	$ .80	$ 1.40	$ .85	26⅜- 15¼	26	3.2%
International Business Machines	409.9	461.3[1]	8.53	3.20[5]	11.35[1]	3.80[6]	375 -271	370	1.0
National Cash Register	260.9	184.3	1.70	1.00[5]	1.75	1.00	36¼- 19⅛	36	2.7
Remington Rand	225.4[2]	186.0[3]	2.32[2]	1.00	2.50[4]	1.00	41½- 14¼	41	2.4
Underwood Corp.	78.3	56.0	1.13	2.25	2.00	1.25	38⅜- 27	36	3.4

1—Actual.
2—Fiscal year ended March 31, 1954.
3—9 months ended Dec. 31, 1954.
4—For fiscal year ending March 31, 1955.
5—Plus stock.
6—Plus stock, and after 5 for 4 stock-split.

FOR PROFIT AND INCOME



Steels

Up about 40% more than the general market from 1954 lows, steel stocks have had a big play, aided by improved earnings, the most comfortable cash positions in the history of most of these companies, boosts in some dividends, including those of Big Steel and Armco, and two-for-one stock splits by the same two companies. Largely due to accelerated amortization, so-called cash earnings of most companies are around double reported earnings, facilitating recent dividend increases and perhaps suggesting some more to come. Because the economy is less subject to major depressions than in the past, because of the greater efficiency of the vast total of new capacity built in recent years, and because of strong finances, leading steel issues are less speculative than they were in the past—but they have not become stable-income stocks. Around recent level of 80, U. S. Steel yields 5% on its new $4 dividend. Earnings will be higher this year, possibly as much as $8 a share or so, against 1954's $6.45. But you cannot expect another dividend boost or split for the foreseeable future. The same applies to Armco, now at 78, yielding 4.6% on its new $3.60 dividend.

Groups

Aside from steels, stock groups recently reflecting above-average demand include aircrafts, air lines, aluminum, construction, business machines, coppers, finance companies, electrical equipments, machinery, mail-order stocks, department-store issues, machinery, metal fabricating, oils, textiles, tires and electric utilities.

Stocks

A few of the many stocks faring better than the general market at this writing are American Chicle, Bell Aircraft, Burlington Mills, Cities Service, Commercial Solvents, Continental Oil, Cutler Hammer, Ferro Corp., Flintkote, Industrial Rayon, Magnavox, National Cash Register, Penick & Ford, Pullman, Thompson Products and Texas Company.

Splits

As previously noted, the number of stock splits set a record in 1954. Instead of slowing down, this trend has accelerated so far in 1955. Among more or less prominent companies, over 25 have proposed splits since the turn of the year, equal to roughly a fourth of all 1954 splits. There is virtually sure money in knowing in advance where and when a split is coming, but only "insiders" have positive information.

Speculation

Brokers' loans at present probably are not much more than 1% of the total value of listed shares. Nevertheless, there has been a good deal more margin buying, and in-and-out quick-turn margin trading, than that figure might suggest. Results of a detailed study of market transactions between December 8 and December 15, released in recent days by the Stock Exchange, showed that in that period 52.5% of all transactions—other than those of brokers or Exchange members—were on

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1954	1953
Brooklyn Union Gas	Year Dec. 31	$2.50	$2.01
Daystrom Inc.	9 mos. Dec. 31	1.53	1.31
General Motors Corp.	Year Dec. 31	9.08	6.71
Sheaffer (W. A.) Pen Co.	Quar. Nov. 30	1.54	1.01
American Distilling Co.	Quar. Dec. 31	1.37	.80
Remington Rand Inc.	Quar. Dec. 31	.95	.59
American Zinc, Lead & Smelt.	Year Dec. 31	2.19	1.91
Beaunit Mills	Quar. Dec. 31	.90	.38
Beech Aircraft Corp.	Quar. Dec. 31	1.48	1.05
Keystone Steel & Wire	Quar. Dec. 31	1.03	.55

margin. This compares with a figure of 35.2% shown by a similar survey made in September, 1952. These transactions by the so-called "public" accounted for 76% of trading volume during the week studied, those of brokerage firms, brokers and floor traders for the balance. Operations of all types of institutions are included in the total for the "public," yet they are almost entirely on a cash basis. This implies that the 52.5% figure for the sample December week understated the margin operations of "public" individuals—which is to say John Q. Public. The study also showed less long-term investment buying by individuals than earlier, more short-term trading.

Shoes

There was overproduction of shoes to a moderate extent in 1953, and some inventory excess at the distributing end to be corrected in 1954. However, correction took no great time. Shoe output declined from the record 1953 level by only some 2% last year; and has since turned upward. As with practically every other line, retail demand is relatively strong. Production and retail sales very likely will set new records this year. Earnings of shoe producers probably will better those of last year by from 5% to 10%, adding to the security of generally conservative dividends. Shoe stocks are "slow movers" primarily suitable for income accounts. Big profits are not to be made in them, especially on a short-run basis. In some, however, long-term appreciation has been substantial. That is true of Brown Shoe, General and Melville; less so in recent years of Endicott Johnson and International Shoe, which lagged in pressing integration on the retail end through owned store chains. In line with the outlook, most shoe stocks recently edged up to new 1954-1955 highs. On the basis of quality and yield, our first choice for income return would be Melville Shoe, biggest combined manufacturer-retailer. Earnings should be close to $2.30 a share this year, against around $2 estimated for last year. Finances are strong, policy liberal, the present $1.80 dividend secure. Payments have been continuous since 1916. At present price of 32, the yield is slightly over 5.6%.

February

On a long-term average, February has not been too good a month for the stock market. In fact, its record, even though by no means all black, is the poorest of any month of the year, at least in terms of the Dow averages. Probably the reason is largely technical, with January advances in a majority of years "greasing the skids" for February correction in bull-market years, and with the February bias downward, of course, in bear-market years. The Dow industrial average has scored net February gains in 25 years of its history, declines in 32 years. For the rail average, the February record has been gains in 23 years, net declines in 34 years. The record is more "bearish" than it might seem at first glance, for the mathematical odds over a long period of time are that any given month should more often been an "up" than a "down" month for the market, for the simple reason that bull markets have an average duration about twice that of bear markets. However, the back record is of little practical use. Any month can be an exception to past seasonal trend. Thus, January was an exception, resulting in no significant net change in the level of the industrial average and bringing a moderate net loss for rails. Whereas, on the prior record, through 1954, there were January gains in 36 years, for the industrial average, declines in only 21 years; for rails, a net gain in January in 34 years, decline in 23 years. For reasons nobody can fathom, March, the month of heaviest income tax payments, has a fairly good record. It has brought gains for the industrial average in 33 years, declines in 24; for the rail average, gains in 32 years, declines in 25 years. Again for obscure reasons, April, first full spring month, has a slightly bearish record, with the industrial average off in this month in 30 years, up in 27; and with rails showing April net loss in 32 years, net gains in only 25 years.

Best Foods

This stock kicked around between 30 and 40 for a long time, but has been trending gradually up since about the middle of 1954. At 51 currently, it is at the highest level since 1929. Maker of a number of well-known branded food products, the company has a fair earnings record, but an outstanding record in maintaining strong finances and paying liberal dividends each year since 1927. In 1954 it paid $3 ($2 regular and $1 special), with earnings at $3.29 a share for the fiscal year ended last June 30. Results for the current year probably will be at least moderately better, as behavior of the stock forecasts. Dividends should not be less than $3. They might be a bit more.

Insiders

Selling by insiders may or may not mean bearishness on a stock. A large holder may think it prudent to do some selling purely for estate-tax considerations. But when insiders buy with their own money, that means they necessarily are bullish on the given stock, especially in cases where it is not a matter of exercising stock options. A few examples of insider buying in December, as shown by the official records, were: 5,326 shares of National Tea by a director; 7,625 shares of Colgate by two officers; 5,000 shares of Armour by a director; Guantanamo Sugar, 2,800 shares bought by the company's president; 6,500 shares of Nopco Chemical by a director; 1,000 shares of New York Central by its president; Parker Rust Proof, 4,000 shares by a director; Allied Stores, 3,000 shares by an officer; and Eastern Airlines, 1,000 shares by a director.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

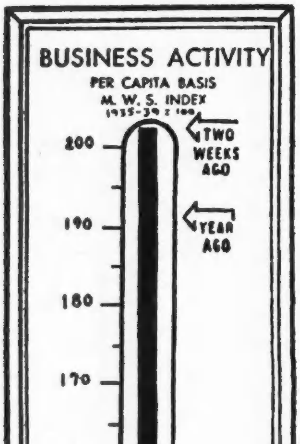
		1954	1953
New York Central R.R.	Year Dec. 31	$1.42	$5.27
Savage Arms Corp.	Year Dec. 31	1.07	1.74
Wheeling Steel Corp.	Year Dec. 31	5.48	7.49
Erie R.R.	Year Dec. 31	1.78	4.31
Ward Baking	Year Dec. 25	1.54	3.12
Colorado Fuel & Iron	Quar. Dec. 31	.55	.89
Eagle Picher Co.	Year Nov. 30	2.47	3.28
Granite City Steel	Year Dec. 31	2.04	3.55
Outboard Marine & Mfg.	Quar. Dec. 31	.39	.62
Pittsburgh Steel Co.	Year Dec. 31	.62	2.41

The Business Analyst

WHAT'S AHEAD FOR BUSINESS?

By E. K. A.

The problems of "small business" are not becoming any simpler, to put it mildly. This is particularly true in manufacturing, where the bigs are getting bigger and competition is becoming increasingly intense.



One of the great difficulties faced by smaller manufacturers at the present time is the fact that "everybody is getting into the act." Numerous smaller manufacturers, who prior to the war met only competition from other producers of about the same size, now are being forced to meet really hard competition from the "sideline" production of large corporations.

It is truly astonishing to discover to what an extent big business has diversified its production since the end of the war. For example, one large organization — best known for its activities in radio and television—is an important producer of gas ranges for the home.

There is no doubt whatsoever that American industry has heeded the warning of management consultants to "diversify or die." And, it has been only natural that the larger companies, better financed, have been better able to diversify their production than the smaller producers.

Some of the larger corporations set aside 5 to 6 per cent of every sales dollar for research and development of new products. Smaller organizations, on the other hand, generally do not have enough money to conduct the necessary research for new products, although they do get some help from the Small Business Administration.

All too frequently, the smaller business man who comes up with a new product or an improvement on an old product doesn't have the field all to himself for very long. Inventive genius being what it is, innumerable variations on the same central theme are possible without infringement of patent rights. The larger corporations, naturally, have more inventive genius at their command.

From the management standpoint, diversification is virtually imperative under today's conditions. Industry cannot afford to have all its eggs in one basket. The popular taste is fickle and, as one product loses its consumer appeal, another must be ready for promotion to maintain income. Although diversification is fully as important for smaller manufacturers as for larger manufacturers, the "bigs" definitely have the edge.

With industrial labor costs mounting steadily and apparently due to rise still further before long, the theme song throughout industry is "automation." This really is nothing new, simply putting machines to do the work that men used to do. But, it is being carried to greater lenghs than ever before. Industrial engineers are thinking in terms of completely automatic plants, with labor needed only for pushing buttons.

Before a newly invented product can be put on the market, a machine often must be invented to make the product at a sufficiently low cost to obtain widespread consumer acceptance. This isn't as easy as it sounds. In some cases, products have been held up for months and even years while the engineers worked overtime trying to eliminate the wrinkles in the production machinery.

All of this costs money and lots of it, more than most smaller manufacturers can risk. The only alternative for them is to use standard machinery and much high cost hand labor, with resultant high production costs and resultant difficulty in mass marketing. It is not too surprising that a number of smaller manufacturers have decided that the game is not worth the candle and are deliberately keeping small, concentrating on a very few time-tried products.

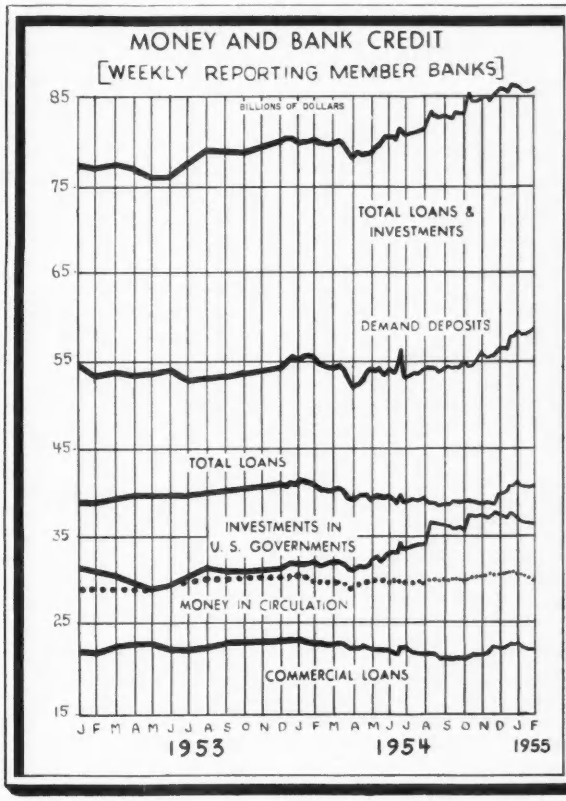
The Business Analyst

HIGHLIGHTS

MONEY & CREDIT—Investors in fixed income securities have been heartened by the success of the Treasury's recent refunding of $15 billion of called or maturing obligations. Feature of the operation was the offer of a 3%, 40-year bond, longest maturity essayed by the nations' fiscal authority since 1911. This long-term obligation was offered to owners of the $2.6 billion of called 2⅞s of 1955-1960 who were also given the option of a 1⅝% note maturing in 13 months. No less than 73% of the called bonds were turned in for the 40-year obligation, a clear indication that there is still no shortage of money for long-term borrowers. The Treasury also did well on its over-all exchange offer. Of the $15 billion worth of obligations involved in the refunding, only 5.6% demanded cash for their holdings, a normal attrition in an operation of this kind.

The announcement on January 28 that the Treasury had decided to issue a long-term bond did not come as too much of a surprise to investors, and the bond markets, which for some weeks had been adjusting to the prospect of tighter money rates, took the news in orderly fashion. By February 7, eleven days after release of the news, the Treasury 3¼s of 1983-1978, the issue most competitive with the new bond, had lost only ⅝ point while the Victory 2½s of 1972-1967 gave up no more than ¼ point. Corporate obligations were moderately lower during the same period with most high grade corporates losing only a point or less while tax-exempt obligations gave up a similar amount. Clearest test of the market came in the new-issue field with underwriters offering $25 million of AAA-rated, 40-year Chesapeake and Potomac Telephone of Baltimore bonds on February 2. Priced to yield 3.125%, only 14 basis points above the going yield for the Treasury's new bond of similar maturity, the issue aroused good investor response and the managers were able to close the books inside of a week.

Improved business and slow-down of inventory liquidation are reflected in the recent trend of bank loans to business. These loans usually contract in the weeks after Christmas but the decline this year has been much smaller than in 1954. In the five weeks through January 26, commercial, industrial and agricultural loans advanced by member banks fell $360 million, significantly under the $859 million contraction of the corresponding 1954 period. Early in 1954, manufacturers were reducing inventories at a fast clip while no such liquidation is in evidence this year. This factor coupled with larger credit needs of finance companies, resulting from increased consumer use of installment credit, have cushioned this winter's seasonal contraction in loans.



TRADE—Bad weather has been a limiting factor in recent sales promotions although total dollar volume in the week ending Wednesday, February 2, matched year-ago figures, according to Dun & Bradstreet estimates. The Southwest region made the best showing, topping the corresponding 1954 week by 6%. Apparel sales declined perceptibly during the week with both men's and women's wear in slower demand. Purchases of household equipment were unchanged from the previous week but managed to top year-ago figures by a small amount. Sales of furniture, floor coverings and automatic washing machines were ahead of last year while demand for radio and television sets was slower.

INDUSTRY—Industrial activity held at high levels in January but did not show the upward momentum of previous months. This is the consensus of the National Association of Purchasing Agents which notes that new order placements receded slightly last month, although output continued at former high levels. Manufacturers are still moving cautiously with regard to building up inventory even though a moderate upward movement is visible for prices of industrial commodities.

COMMODITIES—The Bureau of Labor Statistics' weekly index of primary market prices rose 0.1% in the week ending Tuesday, February 1, to stand at 110.2% of the 1947-1949 average. At this level it was up 0.6% from a month ago and

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Nov.	3.1	3.2	3.6	1.6
Cumulative from mid-1940	Nov.	570.4	567.3	525.7	13.8
FEDERAL GROSS DEBT—$b	Feb. 1	278.5	278.5	274.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Jan. 26	58.7	58.4	56.1	26.1
Currency in Circulation	Feb. 2	29.8	29.8	29.9	10.7
BANK DEBITS—(rb3)**					
New York City—$b	Nov.	63.2	58.8	54.3	16.1
344 Other Centers—$b	Nov.	99.1	90.3	91.5	29.0
PERSONAL INCOME—$b (cd2)	Nov.	287.6	286.3	287.2	102
Salaries and Wages	Nov.	197	196	198	99
Proprietors' Incomes	Nov.	47	47	49	23
Interest and Dividends	Nov.	25	25	24	10
Transfer Payments	Nov.	16	17	14	10
(INCOME FROM AGRICULTURE)	Nov.	14	14	16	3
POPULATION—m (e) (cb)	Dec.	163.7	163.5	160.9	133.8
Non-Institutional, Age 14 & Over	Dec.	116.8	116.6	115.6	101.8
Civilian Labor Force	Dec.	63.5	64.6	63.0	55.6
Armed Forces	Dec.	3.3	3.3	3.5	1.6
unemployed	Dec.	2.8	2.9	2.3	3.8
Employed	Dec.	60.7	61.7	60.7	51.8
In Agriculture	Dec.	5.3	6.2	5.4	8.0
Non-Farm	Dec.	55.4	55.6	55.3	43.2
Weekly Hours	Dec.	41.3	40.6	41.6	42.0
EMPLOYEES, Non-Farm—m (lb)	Dec.	49.4	48.8	50.2	37.5
Government	Dec.	7.2	6.9	7.0	4.8
Trade	Dec.	11.3	10.8	11.4	7.9
Factory	Dec.	12.7	12.7	13.3	11.7
Weekly Hours	Dec.	40.5	40.2	40.2	40.4
Hourly Wage (cents)	Dec.	1.83	1.83	1.80	77.3
Weekly Wage ($)	Dec.	74.12	73.57	72.36	21.33
PRICES—Wholesale (lb2)	Feb. 1	110.2	110.1	110.5	66.9
Retail (cd)	Nov.	207.4	207.6	209.1	116.2
COST OF LIVING (lb2)	Dec.	114.3	114.6	114.9	65.9
Food	Dec.	110.4	111.1	112.3	64.9
Clothing	Dec.	104.3	104.6	105.3	59.5
Rent	Dec.	129.4	129.2	127.6	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Nov.	14.4	14.1	14.1	4.7
Durable Goods	Nov.	4.9	4.7	5.0	1.1
Non-Durable Goods	Nov.	9.4	9.4	9.1	3.6
Dep't Store Sales (mrb)	Nov.	0.86	0.86	0.86	0.34
Consumer Credit, End Mo. (rb)	Nov.	29.2	29.0	28.8	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Dec.	25.3	24.4	22.0	14.6
Durable Goods	Dec.	12.3	11.5	9.6	7.1
Non-Durable Goods	Dec.	13.1	12.8	12.5	7.5
Shipments—$b (cd)—Total**	Dec.	24.9	24.4	24.1	8.3
Durable Goods	Dec.	12.0	11.6	11.6	4.1
Non-Durable Goods	Dec.	12.8	12.8	12.6	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Dec.	77.5	77.7	81.1	28.6
Manufacturers'	Dec.	43.8	43.8	46.7	16.4
Wholesalers'	Dec.	11.5	11.7	11.7	4.1
Retailers'	Dec.	22.2	22.1	22.7	8.1
Dept. Store Stocks (mrb)	Dec.	2.4	2.5	2.5	1.1
BUSINESS ACTIVITY—1—pc	Jan. 29	203.3	202.8	191.3	141.8
(M. W. S.)—1—np	Jan. 29	256.0	255.4	136.7	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 655)

only 0.3% under the January, 1954 figure. Farm products rose 0.8% in the latest week while meats fell 1.9%. The decline in the latter was responsible for a drop of 0.5% in the index of processed food prices. Among industrial materials, a 10% rise in the price of copper was immediately reflected in substantial increases for brass and bronze products.

* * *

CONSTRUCTION ACTIVITY was high in January with outlays amounting to $2.8 billion, a 13% gain over a year ago. On a seasonally adjusted basis, construction expenditures during January, on an annual basis, exceeded $40 billion, which compares with outlays of $37.2 billion for all of 1954. Private building amounted to $2.0 billion last month, a new record for a January and nearly 20% above January, 1954. The main impetus to the improvement in this category came from private home building activity which topped a year ago by one-third. Industrial construction continued the moderate rise which started in October, with January outlays somewhat higher, at a time when a decline is usual. Public construction expenditures were unchanged from a year ago with reduced Federal outlays offset by increased State and local government spending.

* * *

FREIGHT CAR manufacturers have experienced a sudden surge in incoming orders with no less than 5,800 cars being ordered in the last 10 days of January, including 3,300 for India, the biggest foreign order since 1946. These late figures on new orders show a big recovery from recent levels. Thus new orders for all of December amounted to only 2,685 freight cars. Domestic freight car deliveries came to 2,173 units in December and order backlogs on December 31, amounted to 15,317 cars, a far cry from the 29,950 cars on order a year earlier. Industry observers are hoping that the sharp pick-up in recent weeks marks the beginning of the long-awaited recovery in railroad buying.

* * *

Corporate **CASH DIVIDEND PAYMENTS** rose to $9.2 billion last year, up from $8.5 billion in 1953, the Commerce Department has reported. The increase in dividends in the face of somewhat lower corporate profits was the result of a number of factors, including a reduction in capital expenditures and a rise in depreciation allowances, both of which made for improved cash positions. This enabled many corporations to increase the proportion of pay-outs to earnings from the low

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—la np (rb)	Dec.	130	129	126	93
Mining	Dec.	116	112	113	87
Durable Goods Mfr.	Dec.	145	143	142	88
Non-Durable Goods Mfr.	Dec.	119	118	112	89
CARLOADINGS—t—Total	Jan. 29	642	636	628	933
Misc. Freight	Jan. 29	331	330	340	379
Mdse. L. C. L.	Jan. 29	61	60	63	66
Grain	Jan. 29	46	48	45	43
ELEC. POWER Output (Kw.H.) m	Jan. 29	10,003	9,981	8,855	3,266
SOFT COAL, Prod. (st) m	Jan. 29	8.8	8.5	8.4	10.8
Cumulative from Jan. 1	Jan. 29	34.5	25.7	33.7	44.6
Stocks, End Mo.	Dec.	69.2	71.0	80.6	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Jan. 28	6.7	6.7	6.3	4.1
Gasoline Stocks	Jan. 28	170	166	168	86
Fuel Oil Stocks	Jan. 28	48	51	46	94
Heating Oil Stocks	Jan. 28	89	96	84	55
LUMBER, Prod.—(bd. ft.) m	Jan. 29	252	241	197	632
Stocks, End Mo. (bd. ft.) b	Dec.	9.1	9.1	9.0	7.9
STEEL INGOT PROD. (st) m	Dec.	8.3	8.1	7.9	7.0
Cumulative from Jan. 1	Dec.	88.3	80.0	111.6	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Feb. 3	280	258	194	94
Cumulative from Jan. 1	Feb. 3	1,575	1,295	961	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Jan. 29	244	227	232	165
Cigarettes, Domestic Sales—b	Oct.	32	33	35	17
Do., Cigars—m	Oct.	567	569	589	543
Do., Manufactured Tobacco (lbs.)m.	Oct.	18	19	18	28

PRESENT POSITION AND OUTLOOK

levels of recent years. Among manufacturing firms, nearly all groups increased their payments last year. Notable gains in payments were made by aircraft producers while substantially higher payments were noted for the electrical machinery, metals, oil refining, food and paper groups. Textile and leather firm disbursements were down again for the third year in a row. All nonmanufacturing groups reported higher payments than in 1953.

* * *

CEMENT PRODUCTION set another new high last year with output at 270 million barrels, the tenth consecutive year that a new peak has been registered. Cement output in 1954 is estimated at 93% of theoretical capacity but the need for regular close-downs for repair and renovation means that production was close to the limit of realizable output. The Bureau of Mines has estimated that the industry will have to increase its capacity by 15% by the end of 1956 to meet rising demands. Highway construction was the biggest user of cement last year, accounting for about 50 million barrels and demand from this source appears to be heading higher. Residential and non-residential construction also were big users, consuming between them, about 30% of total output.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

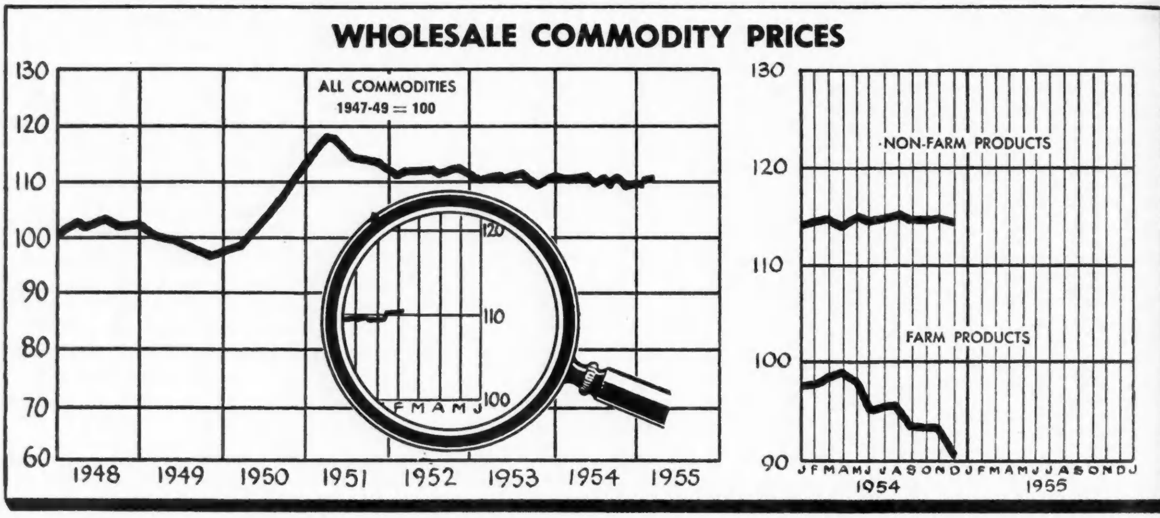
No. of Issues (1925 Cl.—100)	1954-'55 Range High	1954-'55 Range Low	1955 Jan. 28	1955 Feb. 4
300 COMBINED AVERAGE	294.2	192.8	289.9	294.2H
4 Agricultural Implements	291.9	189.7	286.5	291.9H
3 Air Conditioning ('53 Cl.—100)	123.0	99.0	110.2	107.9
10 Aircraft ('27 Cl.—100)	1084.9	404.4	1020.0	1084.9H
7 Airlines ('27 Cl.—100)	1044.3	512.3	1023.4	1033.9
4 Aluminum ('53 Cl.—100)	206.9	99.0	200.9	206.9H
7 Amusements	159.8	87.6	153.4	156.6
9 Auto Accessories	321.0	241.3	311.4	321.0H
6 Automobiles	47.5	38.4	47.1	47.1
4 Baking ('26 Cl.—100)	29.2	23.0	28.9	29.2
3 Business Machines	744.5	362.3	717.9	744.5H
6 Chemicals	491.2	369.3	481.4	486.3
3 Coal Mining	15.6	9.4	15.3	15.6H
4 Communication	107.1	61.0	106.0	107.1H
9 Construction	114.1	64.0	111.9	114.1H
7 Container	725.9	495.4	696.9	711.4
7 Copper	247.7	140.6	243.1	247.7H
2 Dairy	129.1	102.0	120.0	120.0
6 Dept. Stores	83.2	56.8	81.6	83.2H
5 Drugs—Eth. ('53 Cl.—100)	135.0	97.0	131.0	129.6
6 Elec. Eqp. ('53 Cl.—100)	163.8	99.0	160.7	163.8H
2 Finance	626.5	394.8	620.3	626.5H
6 Food Brands	269.2	194.6	269.2	266.6
3 Food Stores	151.6	130.2	147.8	149.2

(Nov. 14, 1936, Cl.—100)	1954-'55 Range High	1954-'55 Range Low	1955 Jan. 28	1955 Feb. 4
100 HIGH PRICED STOCKS	188.1	124.0	184.8	188.1H
100 LOW PRICED STOCKS	361.2	225.0	354.2	361.2H
4 Gold	827.4	517.4	756.1	727.6
4 Invest. Trusts	149.7	99.5	148.2	149.7H
3 Liquor ('27 Cl.—100)	1080.1	805.8	993.7	1004.5
9 Machinery	333.9	210.0	333.9	333.9
3 Mail Order	170.7	110.2	170.7	170.7
4 Meat Packing	120.0	85.7	117.6	118.8
5 Metal Fab'cat'g ('53 Cl.—100)	165.6	101.0	165.6	165.6
10 Metals, Miscellaneous	372.7	215.1	369.0	372.7H
4 Paper	807.5	466.0	767.1	799.4
22 Petroleum	608.0	412.1	596.0	608.0H
22 Public Utilities	239.6	194.4	239.6	239.6
7 Rail Equipment	80.9	52.8	77.1	80.9H
20 Railroads	66.7	51.0	66.7	66.0
3 Soft Drinks	473.7	380.1	459.9	473.7H
11 Steel & Iron	235.0	133.8	228.3	235.0H
4 Sugar	60.7	47.3	60.7	59.5
2 Sulphur	855.1	564.3	846.7	846.7
10 Television ('27 Cl.—100)	42.3	29.0	41.1	42.3H
5 Textiles	158.9	101.3	155.9	158.9H
3 Tire & Rubber	149.4	86.3	143.6	149.4H
5 Tobacco	87.1	73.5	86.2	86.2
2 Variety Stores	317.7	274.4	315.0	315.0
15 Unclassified ('49 Cl.—100)	152.2	106.2	149.3	152.2H

H—New High for 1954-55.

Trend of Commodities

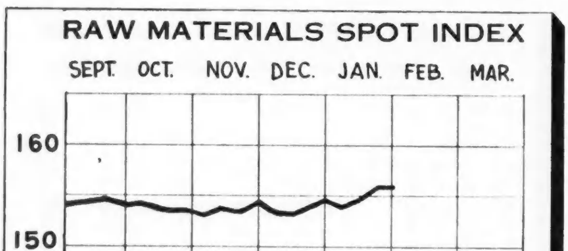
Most commodity futures were somewhat easier in the two weeks ending February 7, despite buying flurries based on increased international tension. Coffee turned down sharply, accounting for a good part of the 2.43 point decline in the Dow-Jones Commodity Futures Index, in the period under review. May wheat lost 2¼ cents in the two weeks ending February 7 to close at 225¾. Substantial rainfall in the Southwest drought areas was thought to have given a new lease on life to winter wheat areas that had been hard hit by the dry season. Government sales of the bread grain continue at high levels, with the total for the period from July 1, 1954 through January 21, 1955, amounting to 142 million bushels, which compares with sales of only 47 million bushels in the corresponding period a year earlier. Exports from this country are well above last year, although most of the sales are from surplus holdings of the Commodity Credit Corporation. May corn lost 1¾ cents in the fortnight ending February 7 to close at 155½. The Agriculture Department has increased acreage allotments applicable to this year's crop, which should mean a bigger harvest this Fall. Movement of corn to market has fallen off substantially in recent weeks ,indicating that farm stocks have been largely liquidated. May cotton lost 15 points in the two weeks under review to close at 34.79 cents. The CCC announced that it would offer cotton for sale from its stocks in line with he commodiy disposal program but traders did not appear particularly disturbed by this development. The textile picture is mixed with heavy goods lagging. The Government will soon announce the minimum loan rate for 1955 cotton and this is expected to approximate 33.45 cents a pound for the middling fifteen-sixteenths inch variety.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

	Date Jan. 27	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	91.8	90.9	90.4	87.1	53.0
9 Foodstuffs	91.1	90.9	92.4	97.0	46.1
3 Raw Industrial	92.2	90.7	89.0	80.8	58.3

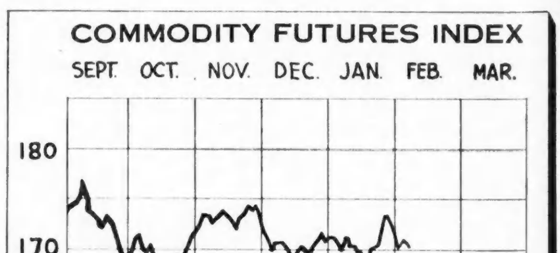
	Date Jan. 27	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
5 Metals	100.6	100.1	100.5	82.0	54.6
4 Textiles	86.8	85.7	86.2	88.2	56.3
4 Fats & Oils	68.6	69.0	69.8	72.1	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1954-55	1953	1952	1951	1945	1941	1938	1937
High	154.4	162.2	181.2	215.4	111.7	88.9	57.7	86.6
Low	147.8	147.9	160.0	176.4	98.6	58.2	47.3	54.6



Average 1924-26 equals 100

	1954-55	1953	1952	1951	1945	1941	1938	1937
High	183.7	166.5	192.5	214.5	95.8	74.3	65.8	93.1
Low	167.2	153.8	168.3	174.8	83.6	58.7	57.5	64.7

WHAT'S NEW?

—A Record of Important Company Developments

Standard Oil of New Jersey directors caused some disappointment among investors when they failed to recommend a stock split. The last time the stock was split was in June 1951, when a two-for-one split was ordered. Possibly, the management believes there is enough stock now outstanding after the issuance of 4.8 million shares last year in exchange for 5.4 million shares of Humble Oil & Refining. Earnings, not reported yet, are believed to have been about $9.50 a share for 1954 on the 65.4 million shares presently outstanding compared with $9.13 a share in 1953 on the 60.5 million shares then outstanding. With no new financing in sight, and 1955 capital expenditures to be provided for, another stock split may be deferred for some time.

Montgomery Ward management has filed an appeal with the Circuit Court of Illinois to set aside its recent decision that the existing method of electing directors on a staggered basis is illegal. In the meantime, the contending Wolfson faction is making every effort to prevent adjournment of the annual stockholder's meeting scheduled for April 22 and for that reason is seeking an early decision on the appeal. In recent months, the activity and strength in Montgomery Ward stock has been largely based on buying by the Wolfson interests in anticipation of their gaining control of the company. A court decision, one way or the other, is bound to have immediate repercussions on the stock. Until the Court, however, makes its decision known, the stock is likely to hold within a comparatively narrow range.

Important Dividend Changes

January 26-February 8

INCREASED DIVIDENDS	New Rate	Period
Hamilton Watch	$ .30	Qu.
Kinney (G. R.)	.40	Qu.
Seaboard Oil	.25	Qu.
Budd Co.	.30	
Columbia Brdcstg. "A" & "B"	.50	
Hilton Hotels	.50	Qu.
Armco Steel	.90	
Beaunit Mills	.50	
Rexall Drug	.12½	Qu.
Armstrong Cork	.90	
Chicago Pneu. Tool	.37½	
South Carolina Elec. & Gas	.22½	
Bristol Myers	.35	
Filtrol Corp.	.30	
Flintkote Co.	.60	
Woodward Iron	1.00	Qu.
Continental Oil	.70	
Minnesota Mining & Mfg.	.40	
International Nickel	.55	
Jewell Tea	.50	
St. Joseph Lead	.75	
Grant, W. T.	.45	Qu.
Western Union Tel.	1.00	

EXTRA OR SPECIAL DIVIDENDS	Rate
Boeing Airplane	$ .25
Cornell Dubilier	.20
Swift & Co.	.50
M. & M. Woodworking	.15
The Fair	.10
Western Air Lines	.15
Sheaffer Pen	.45
STOCK DIVIDENDS (Including Stock-Splits)	
(Authorized & Proposed)	
Houston Light & Power	5%
Bangor & Aroostook	5
General Dynamics	100
Western Union Tel.	4 for 1
Pure Oil	2 for 1
YEAR-END DIVIDEND	
Bethlehem Steel	2.25
IRREGULAR DIVIDEND	
New York Shipbuilding	.50
OMITTED	
Wilson Jones	
Brunswick-Balke-Coll.	
Pittsburgh Steel	

Chesapeake & Ohio Rwy. registered the fourth straight monthly gain in earnings in its January report. The gain in the first month of the year was substantial with profits totaling $3.7 million compared with $2.4 million in January 1954. Earnings improvement is ascribed to greater traffic with proportionate gains in gross revenue and to operating economies. In 1954, the road earned $5.01 a share compared with $6.04 a share the previous year. In view of the generally favorable economic situation, with particular reference to the improvement now taking place in coal loadings, the road should exceed 1954's earnings in the present year.

J. P. Stevens & Co. directors are hoping that the 50-cent quarterly dividend can be restored this year. In the final two quarters of the fiscal year 1954 (ended Oct. 31.), the dividend was reduced to 25-cents a share quarterly. The chairman forecasts "considerable improve-

ment" over 1954 when sales fell sharply to $277.5 million from the previous year's total of $334.5 million. With the long-drawn out adjustment in the textile industry now apparently over, a worthwhile gain over the 90-cents a share reported for fiscal 1954 should be witnessed. The stock in recent weeks has reflected this improved prospect by somewhat firmer market action.

Central Hudson Gas & Electric Corp. reported a significant 1954 gain in net income over 1953. This amounted to 16%. Due to dilution of the shares last year, however, the improvement does not show up too conspicuously on a per share basis, earnings amounting to 94 cents on the greater number of shares, as against 90 cents a share in 1953. Of particular interest to the company is the construction of a new laboratory at Poughkeepsie by International Business Machines. This is part of a new industrial development in the central Hudson region which will be aided by the new Thruway.

General Steel Castings Corp., is understood to have under consideration calling for redemption the remainder of its 100,000 shares of outstanding preferred stock, of which about 75,000 shares are affected, the company, in recent years, having repurchased about one-fourth of the outstanding stock. Under the plan now being considered, the stock would be redeemed next April 1 at $110 a a share plus $1.50 accrued dividends.

Lukens Steel Co., is planning a significant move which will include the manufacturing and marketing of end products. The resulting diversification and potentially broader markets will reduce the company's dependence on basic steel production. Lukens has not given any details on the new developments, but it may be presumed there will be no major financial problems involved in view of its sound working capital position. Similar attempts can be expected on the part of other smaller steel companies, considering their less generally favorable competitive position under existing conditions.

Lambert Co., directors, simultaneously with similar action by directors of *Warner-Hudnut, Inc.*, have approved plans for a merger of the two companies. Under the proposal, to be voted upon by stockholders of both companies sometime in March, the merger would be effected by an exchange of one share of Warner-Hudnut common for each share of Lambert Co. common. The consolidation would bring together two organizations well established in the pharmaceutical specialties field, with Warner-Hudnut also contributing its broad line of cosmetics and its dynamic management.

Borden Co., in line with its policy of expanding activities of its chemical division has acquired the American Monomer Corp., and Monomer-Polymer, Inc. The latter company is engaged in research on thermoplastic materials and produces specialized monomers and polymers for research use and American Monomer, a large producer of polyvinyl alcohol, also manufactures a broad line of solid thermoplastic resins. These acquisitions give Borden one of the broadest and most varied thermoplastic and thermo-setting line in the country.

Alleghany Ludlum Steel Corp., in conjunction with Arthur D. Little, Inc., has formed Nuclear Metals, Inc., to serve as contractor-operator of the atomic energy metallurgical research laboratory at Cambridge, Mass. The laboratory staff will devote its attention to research in reactor and other materials, including uranium, beryllium, zirconium and alloys closely associated with development of atomic energy. This new association marks another step into the field of new metals for Alleghany Ludlum which is one of the largest producers of stainless steel and the fabrication of titanium metal. Net earnings of the company, reflecting the general decline in the steel industry's 1954 operations, were down to $2.30 a share last year from $4.40 for 1953. Substantially better results are looked for in the current year with improved demand for all products now being recorded and with flat-rolled electrical and stainless steel facilities of the company operating at near-capacity rates.

R. J. Reynolds Tobacco Co., on a decline of about $62 million in 1954 sales—a drop roughly proportionate to that of other cigarette manufacturers—showed an increase of about $11.6 million in net income. This increase was about equal to the saving the company was able to effect as a result of the demise of the excess profits tax which took $12 million in 1953. Net earnings in 1954 increased to $4.19 a share from $3.12 a share for the previous year, the gain being donated entirely by EPT elimination. Unless sales increase in 1955, a further gain in per share earnings this year, comparable with that registered in 1954 over 1953, will be more difficult to achieve, as the favorable tax comparison will no longer be available. However, with earnings for the current year almost certain to correspond with 1954, the stock has definite merit at prevailing price of 44, yielding the above-average income for this market of 5.4%.

Raytheon Manufacturing Co. Expansion of the radar net which is expected to give full protection to the defense of Canada and the United States, will mean substantial business for manufacturers of radar equipment. Raytheon is one of the leaders in this field and recent strength in the issue is attributed in part to these newer developments. Another factor is the progress the company has made in the past year or two in organizing its business on an increasingly efficient basis.

Penn-Dixie Cement Corp. has just reported earnings of $4.8 million or $6.72 a share on 722,563 shares of capital stock outstanding at the year-end. This is a 44% increase over net income of $3.3 million for 1953 equal to $5.57 a share on 602,136 shares then outstanding. In view of the proposed $50 billion road-building program of the Federal Administration super-imposed upon normal cement expenditures, the industry is faced with high sustained demand for years to come. Penn-Dixie has eight plants in four states with a 12 million-barrel annual capacity, subject to added expansion, as sales which have gained more than the industry average since 1946 expand further. The stock has already discounted much of this favorable outlook, rising from the 1953 low of 37½ to current levels around 75-80, but

(*Please turn to page 676*)

A Timely Study of Security Values

(*Continued from page* 633)

Of importance to the investor is to determine the shift which takes place from time to time in market valuation of earnings. A comparison of the columns showing the price X earnings ratio for 1953 and 1954 indicates the great change that has taken place in market valuation of earnings in that period. It is not enough to see how the prices of the shares themselves have changed but to see how the market valuation of earnings has changed in the interim. It will be recognized that every dollar of earnings, regardless of the group, at the end of 1954 was valued considerably more than at the end of 1953 but the extent of the increase in valuation varies markedly. This is indicated in the column "percent change in net per share" and "percent change in price-earnings ratio." It will be seen that in some cases the percent increase in the price X earnings ratio exceeded, sometimes by a wide margin the increase in earnings per share. In some cases, there were substantial increases in market valuation even where earnings had decreased, or remained static. In other cases, market valuation did not keep pace or fell behind sharply, even when earnings increased.

Group Performance

Examining the performance of the various groups listed in the table according to the ratio of price X earnings, we find that the greatest relative gain was made by the steels and the smallest by the foods. Actually, the rate of increase in market valuation was five times as much for steels as for foods. Merchandising stocks had the next smallest gain. Paper and aircraft, in that order made the largest gains after the steels.

One of the most significant features in this analysis is that it portrays clearly how the groups have shifted their position. Thus, while chemicals still retain first place with reference to the ratio price X earnings, steels shifted from last in our table to seventh out of the ten groups listed; the petroleum group dropped from seventh to eighth. The rest of the changes in the position of the different groups are indicated below:

	Position 1953		Position 1954
chemical	(1)	chemical	(1)
food	(2)	paper	(2)
paper	(3)	electrical	(3)
merchandising	(4)	food	(4)
electrical	(5)	merchandising	(5)
building	(6)	building	(6)
petroleum	(7)	steel	(7)
machinery	(8)	petroleum	(8)
steel	(9)	machinery	(9)
aircraft	(10)	aircraft	(10)

Within the groups, the position of individual stocks has shifted insofar as the market valuation represented by the percent change which took place in the ratio price X earnings is concerned. Thus, in the aircraft group, the greatest percent change in market valuation took place in Boeing, whose earnings at the end of 1954 were valued 70% higher than they were in 1953. The lowest gain took place in Lockheed's valuation which was only 27% higher than in 1953. (The reader should remember that we are discussing the ratio price X earnings and not price changes.) It may be argued from this comparison that Boeing has thus far received the greatest market recognition of its gain in earnings and Lockheed the lowest. This might mean, from a market standpoint, that Lockheed is now the cheaper of the two.

Offering this as an example of the value of the yardstick of price X earnings, it is suggested that the reader study the relationship between the percent change in net earnings per share between the years 1953 and 1954, and the percent change which took place in the price X earnings ratio of the individual stocks listed. He will find that the way in which the market has valued the change which took place in the earnings of these companies varies considerably from stock to stock. This is a valuable guide as it shows the extent to which the market has responded to earnings changes in individual cases. In the table below we show the percent of earnings gain between 1953 and 1954 reflected in the price of the shares of the individual companies listed as they were recorded at the end of last year. Price changes since that time, of course, will alter the ratios but not too substantially.

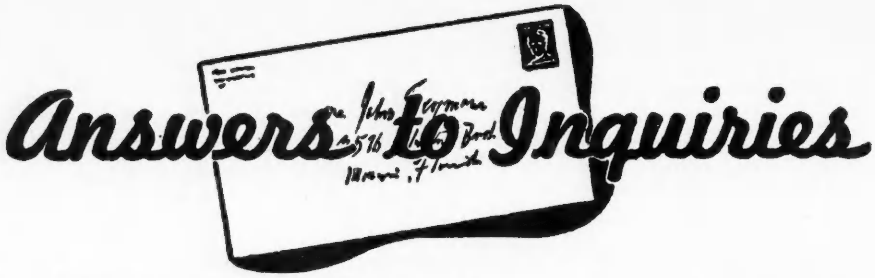
To simplify the meaning of the table, we offer several examples. Thus, the figure 80% for Boeing indicates that 80% of the increase in earnings between 1953 and 1954 were reflected in the price X earnings ratio. In other words, the rise in earnings was not quite

(*Please turn to page* 665)

Group Gains-Price × Earnings (1953 to 1954)

	%
AIRCRAFT	
Boeing	80
Douglas	73
Lockheed	58
North Amer.	60
United Aircraft	173
BUILDING	
Amer. Radiator	172
Johns Manville	— *
Nat'l Gypsum	60
Pitts. Pl. Glass	1150
U. S. Gypsum	30
CHEMICAL *	
(see note)	
ELECTRICAL	
Cutler Hammer	860
Gen. Elect.	217
McGraw	2
Square "D"	— *
Westinghouse	173
FOOD	
Gen. Foods	80
Nat'l Biscuit	117
Nat'l Dairy	— *
Stand. Brands	310
Swift	— *
MACHINERY	
Babcock & Wilcox	160
Bullard	285
Cin. Milling	— *
Ex-Cell-O	8
Ingersoll Rand	1520
MERCHANDISING	
Allied Stores	875
Federated Dept.	44
Mont. Ward	— *
J. C. Penney	87
Sears Roebuck	450
PAPER	
Champion	537
Int'l Paper	— *
Lily Tulip	114
Scott	195
West Va. Pulp	— *
PETROLEUM	
Atl. Ref.	— *
Gulf	— *
Phillips	— *
Shell	1300
Socony	1200
Texas Co.	542
STEEL	
Armco	420
Beth. Steel	— *
Inland	420
Nat'l Steel	— *
Republic	— *
U. S. Steel	— *

(Note:* denotes decline in earnings.



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Ferro Corporation

"What are the growth prospects for Ferro Corp.? Please outline principal products of the corporation and recent earnings and dividend payments."
D. A., Laguna Beach, Calif.

Ferro Corp. is an important producer of frit and glaze for the manufacture of porcelain enamel, and through its other division, produces industrial types of electrical heating units, heat controls and automatic switches, powdered metal, fiber glass, and chemicals and inorganic colors, particularly for the rapidly growing plastics industry.

The broad diversification of the company's operations and its widespread activities abroad provide a good foundation for continued growth. Important factors in this prospect are the company's policy to continue to expand through acquisitions and development of new products through research. Progress has been made along these lines as a gain of 7.5% in consolidated sales were reported for the first nine months of 1954, which increased to $30,100,000 from $28 million for the corresponding months of 1953. Despite the fact that it continued to incur expenses for the development of new products, although not at as high a rate as last year, net earnings for the 1954 first nine months increased to $1,300,000, equal to $2.14 a share for the outstanding capital stock – there is no preferred stock—for a gain of 28.7% over the $1 million, or $1.66 a share on the same basis, in the like period of 1953. Contributing to this latest showing has been the substantially increased sales of foreign subsidiaries, as well as the advances made by its various divisions, particularly in fiber glass, the output of which will have doubled before the end of this year, and the continued good business in porcelain enamel with its increased use in the building, ceramic and other industries. Ferro, long interested in titanium metal through its Horizon Laboratories, has extended its interest in new metals by the recent purchase of a minority holding in Horizons Zirconium Corp., organized to develop and exploit inventions relating to the production of the metals zirconium, thorium and uranium.

According to the chairman of the board, consolidated sales for 1954 will approximate $43 million, a record, which would compare with $39,341,455 in 1953. Earnings for 1954 were equal to $3.07 a share on 23,796 additional shares outstanding, compared with $2.63 in 1953.

Cash dividends of 80c a share annually have been supplemented in 1954 as well as in 1953, with a total of 4% in stock in each year.

Consumers Power Company

"Is Consumers Power Co. regarded as a good grade utility issue? Please furnish recent earnings and please comment on the company's expansion program."
G. H., Bristol, Conn.

Consumers Power Company provides electric or gas service in the southern peninsula of Michigan. The company is one of the largest domestic utilities. The territory served consists of approximately 28,500 square miles and has a population in excess of 3 million. Industry diversification is good, including the automobile, automobile equipment, chemical, food products, household appliances, metal and metal products, and many other fields. The company also supplies steam heat to a few of the communities served in its territory.

Gross revenues for the 12 months to November 30, 1954 were $168,738,505 and net income was $26,458,508, equal to $3.09 per common share based on 7,417,178 common shares on the average outstanding. This compares with the 12 months to November 30, 1953, which showed gross revenues of $155,781,773, net income $24,295,424, equal to $3.08 per share based on 6,691,417 common shares outstanding on the average.

The company plans expenditure of $73 million in 1955 for construction and expansion, compared with $69 million in 1954. The expansion program includes $11,700,000 for natural gas facilities, while one of three 156,250 KW electric generators will go into operation at Saginaw Bay, Mich. The other two units, to be in operation in 1956 and 1957, will bring the system's capacity to 1,870,918 KW.

The company has recently offered a $30 million first mortgage bond, due February 1, 1990. The proceeds will be used for construction.

Consumers Power operates in

(*Please turn to page* 674)

Facts and Figures
FROM THE 1954
ANNUAL REPORT

CONTINENTAL MOTORS · Powerful as the Nation · AMERICA'S STANDARD ®

HIGHLIGHTS

• Sales of Continental Motors Corporation and consolidated subsidiaries in the fiscal year ending October 31, 1954 totalled $182,061,693, as compared with $298,438,605 the previous year. Earnings declined relatively less, amounting to $4,542,748 or $1.38 per share, as compared with $6,023,812 or $1.83 per share in 1953.

• Dividend payments made to Continental Motors stockholders during the fiscal year 1954 totalled 80 cents a share. They were made in four payments of 20 cents each, as in the previous year, and resulted in total dividend disbursement of $2,640,000 in 1954.

• Net working capital at the end of 1954 was the second-highest in the company's history, having declined by $581,196 from the all-time peak of one year earlier.

• Reduction in inventories amounted to $12,201,667, the greatest reduction since 1945, and bank loans were reduced by $3,300,000.

• Capital expenditures for plant additions, tooling, machinery and equipment, in the fiscal year 1954, were $5,181,563 as compared with $3,658,780 in 1953.

• Stockholders' investment increased from $42,254,564 to a new high of $44,157,312. The latter represents a value of $13.38 a share, an increase from $12.80 a share a year ago.

• Current assets at the close of 1954 were $67,362,396, and current liabilities $35,667,076, the ratio between assets and liabilities being 1.9 to 1. Net working capital, $31,695,320, was down only slightly from the all-time high of 1953.

• The company maintained its strong position as a source of aircraft power plants, and brought out three new aircraft models designed to continue and extend its leadership.

• Sale of engines and power units for irrigation use looms as a factor of growing importance in the company's outlook for the immediate future.

• Introduction of V8 engines, in both gasoline and Diesel versions, was an important forward step in 1954. Important additions also were made to the Continental family of agricultural, transportation and industrial in-line Diesels.

• The gas turbine program on which Continental Aviation and Engineering Corporation, unconsolidated subsidiary of Continental Motors, has been working for the past three years, under non-exclusive sub-license from its parent company, made important progress in 1954. C.A.E. enters 1955 with a substantial backlog of orders. Two turbine models are in production.

STATISTICS

Fiscal Years Ended Oct. 31	1954	1953	1952	1951	1950
Engine output (horsepower)	14,659,577	23,073,000	21,390,000	16,950,000	14,711,000
Net sales	$182,061,693	$298,438,605	$264,219,009	$166,677,855	$96,404,468
Net earnings	4,542,748	6,023,812	6,126,021	4,469,063	3,611,245
Net earnings per common share	$1.38	$1.83	$1.85	$1.35	$1.09
Dividends per share	$0.80	$0.80	$0.60	$0.45	$0.30
Current assets	$67,362,396	$104,895,088	$106,074,697	$77,194,737	$44,432,296
Current liabilities	35,667,076	72,618,572	76,692,367	51,185,864	19,376,103
Net working capital	31,695,320	32,276,516	29,382,330	26,008,873	25,056,193
Ratio of current assets to current liabilities	1.9 to 1	1.4 to 1	1.4 to 1	1.5 to 1	2.3 to 1
Long-term debt	$3,320,000	$3,600,000	$3,880,000	$4,160,000	$4,500,000
Property, plants & equipment (net)	16,654,419	14,085,545	13,573,156	12,533,919	11,826,934
Stockholders' equity	44,157,312	42,254,564	38,870,752	34,724,731	31,740,668
Book value per common share	$13.38	$12.80	$11.78	$10.52	$9.62

Continental Motors Corporation
MUSKEGON, MICHIGAN

Coming Important Changes in Money

(*Continued from page* 630)

seriously distressed, clearly indicate a progressive easing of money rates from 1953, the first year of the Eisenhower Administration, through 1954, the second year.

Spacing Out Maturity Dates

In one field, it can be stated quite definitely that the Treasury has adopted a new policy in contrast to the Treasury policy of the previous regime. It is the firm belief at Washington that there should be a readjustment of public debt to longer terms. Through most of the Roosevelt-Truman period, the Treasury financed itself through a multiplicity of short-termed issues. For most of the period, rates were held down through what might be called the connivance of the Federal Reserve. It was the claim of the Administration that such a course was proper as tending to cost taxpayers less for service of the debt in the long run.

In May of 1953, the Treasury issued a 30-year bond issue at 3¼%. This was a sharp departure from the very low rate short-term securities which the previous regime had been issuing almost with the speed of Latin American monthly lotteries. So unaccustomed was the market to such a Government issue that the process of digestion seems to have been something less than smooth. Since their issue, those Humphrey's 3¼'s as they are known in the market, have fluctuated 13½ points. After that long interim, this first long-term issue was received like some strange new animal in a zoo!

Now comes this new Treasury issue which might, indeed, be regarded as marking a milestone as its 40-year term is the longest since the 1911 issue of 50-year Panama Canal bonds. Its terms have been carefully worked out, not at the dictation of—in the least—but after thoughtful consultation with, the Federal Reserve Board, as both agencies realize that both current money rates and the longer term Treasury financing have a bearing on the entire economy.

The manner of issue seeks to maintain as much tranquillity as feasible in the security markets. Holders of lower-rated short term Treasury notes and certificates can turn them in on purchase of $2,611 million of the 40-year 3 per cents. This provides for an orderly refinancing which is of the utmost importance because the total of February-March refinancing of the Treasury must reach $15 billion. Up to February 8, according to a statement by Secretary Humphrey, 94 per cent, or all but $832 million, of the maturing $15 billion debt had been refunded through the 40-year 3s, and two issues of Treasury notes.

Among the considerations of the Washington fiscal authorities was the question of competition with new corporate and municipal issues. Some thought had been given to the issuance of a series of 20-25 year bonds at probably 2⅞% but the Humphrey 3¼'s have now only about 28 years to run and it is the Treasury's desire to space out maturity dates as much as possible.

There is no doubt that the Treasury wanted to create a safe haven for investment money, not so much for banks and commercial organizations as for individuals, estates and to a considerable extent, pension funds. The recent rise in the number of pension funds, in number as well as in phenomenal size of their assets, has created a special invitation for the creation of sound long term securities. It is an interesting development that there has been great liberalization of fund investment rules and, to some people, an astonishing acceptance of common stocks for investment purposes. However, no matter how attractive certain equity issues may be, a 3 per cent Government bond is certain to have considerable appeal to any fiduciary.

That consumer credit stands at a high level appears to have caused some worries and while it is true that the total has been amazingly multiplied in the last decade, concern at Washington is not yet very serious. The total of consumer credit in 1945 was but $5,665 million of which $2,462 million was instalment credit. At the end of 1954 the total figure stood at $29,209 million of which $22,014 was instalment credit. For the last two years more than two thirds has been automobile paper. The servicing of the overwhelming volume of this credit depends upon continued employment at, presumably, the same wage rates as prevailed when the indebtedness was incurred.

A reason, doubtless, why there seems little concern about the huge volume is that it continues at a steady level. At the end of 1953 the total of instalment credit stood at $29,537 million which was more than at the end of 1954. In only one month, March, during the year 1954 did the total drop below $28 billion and in no month of the year did the total exceed $28 billion. This element of steadiness would seem to indicate that there has been no uncontrolled incurring of debt and, of course, the relatively even level means that old debt is being paid off as new is being created.

Position of Home Mortgage Debt

One area of special concern relates to home mortgage debt. It is not to be denied that Washington authorities are studying the growing housing indebtedness arising from the liberal Veterans and Federal Housing Administration terms. The fact that a veteran can purchase a house with no down payment means two things: first he starts with no equity established and, second, the process of building up an equity because of the low monthly payments and the dead weight of the capital sum purchase price, is painfully slow. This must mean that any serious interference with the purchasers' incomes will result in throwing the purchase back on the builder and, ultimately back on the Government which has guaranteed the loan. Seizure of the collateral by the Government agency involved makes matters worse because to throw houses on the market inevitably could demoralize the entire real estate economy.

All these factors are watched almost hourly by the Treasury and the Federal Reserve and as they perceive what they regard as undesirable situations developing, they will apply such measures as seem called for.

It is well within reason that there will be another increase in the Federal Reserve discount rate during the Spring. That will be dependent upon such a multiplicity of factors and no single factor can be selected as controlling. But it can be accepted as gospel that Washington will not seek to impose any new policies to direct the

practices of business and the lives of the people as happened during the previous generation. Washington and especially the Federal Reserve will react to the stimuli which arise from the nation at large. A flexible policy does not preclude the possibility of higher money rates in the period ahead but the rate of elevation should be quite moderate. —END

A Timely Study of Security Values

(*Continued from page* 661)

fully represented in the price of the stock. In the case of United Aircraft, the rise in earnings was much more fully represented in the price x earnings. In this case, it was 173%. In other words, the price x earnings ratio advanced almost twice as much as the earnings themselves: In the case of Lockheed, only 58% of the gain in earnings was reflected in the price X earnings ratio.

In the table "Group Gains" the higher the figure, the greater the percent gain in the ratio price x earnings compared with the percent change in earnings per share. To put it another way: those stocks which have the highest ratio responded the most to the gain in earnings; those which have the lowest ratio responded the least. This means that the stocks with the highest figures — assuming their relative position in earnings in 1955 does not change materially — may have less room to advance than those with the lower figures. On the basis of this statistical comparison, the following two stocks in each of the ten industries listed in the order given could have the greatest market appeal:

Aircraft:	**Lockheed**
	North American
Building:	**U. S. Gypsum**
	Pittsburgh Plate Glass
Chemical:	**American Cyanamid**
	Union Carbide
Electrical:	**McGraw**
	Cutler-Hammer
Food:	**General Foods**
	National Biscuit
Machinery:	**Ex-Cell-O**
	Babcock & Wilcox
Merchandising:	**J. C. Penney**
	Federated Dept. Stores
Paper:	**Lily-Tulip**
	Scott Paper
Petroleum:	**Texas Co.**
	Phillips
Steel:	**Inland**
	Armco

It will be noticed that the en-
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A Timely Study of Security Values

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tire above discussion has been based on earnings and the market valuation of earnings. Nothing has been said about dividends as a factor in security values although, as we stated at the beginning of the article, dividends are the second most important factor. However, dividends are, in reality, an expression of earnings and earning power, it has been deemed more practical to devote the entire article to an analysis of earning per se and its relation to market price.

Nothing could be further from the author's mind than to suggest that any set of statistical data can, by itself, offer a precise guide to future market action. The value of this study consists rather of illustrating the point that a comparison of earnings and the price X earnings ratio for the various groups and the individual members of these groups can be found most useful by serious investors. It at least offers them a means of becoming much more fully acquainted, not only with the securities they own or may own in the future, but with other representative issues in these groups. Information of this sort can often provide a useful clue to future market action.

(Editor's Note: Based on the statistical record shown in the table, the author has listed in order of their market prospects for 1955, each of the 53 stocks which have been selected for comparison. It cannot be expected, of course, that each of the stocks will perform precisely in the manner projected in the table but he believes, on the basis of the interpretation of the data presented in this analysis, that more of the stocks rather than less will behave as indicated.) —END

The Central American Upheaval

(*Continued from page* 639)

lent money to Nicaragua for road building and the modernization of agriculture. A mission of the World Bank which studied the possible economic development of Nicaragua was quite optimistic in respect to future growth, provided outside developmental capital is obtainable.

No Economic Union for Central America

What are the chances, the reader may ask, of the Central American Republics getting together and pooling their funds to develop their natural resources, fertile land, and water power? What are the chances of their uniting into a single market? The answer is that for the time being there is no such chance at all. Actually, Central American Republics, like the ancient Greek States, are individualistic and varied. The highland plateaus, where most of their economic life is concentrated, are isolated from one another and in most cases are not even connected by overland transportation. The bulk of Guatemalan population are for example, docile illiterate descendants of the ancient Mayas, while in Costa Rica the population, stemming from hard working emigrants from Northern Spain is unusually intelligent and its literary rate is high. The gap between the rich and the poor is less in Honduras or Costa Rica than in El Salvador or Panama. Politically it is difficult to see Senor Somoza and Senor Figueres agreeing on anything.

The narrowness of their internal markets, and the dirth of local developmental capital are bound to hold back the development of Central American Republics in contrast with Mexico or the larger Republics in South America. This does not mean however that Central America should not be prosperous or progress. There is stirring everywhere, and a great deal of new construction. Even Tegucigalpa in Honduras is transforming itself into a modern city.

As long as they stay isolated from one an other, Central American Republics must continue as producers of specialized products, such as coffee or bananas, for the United States or European markets. Only Nicaragua seems to be more diversified as to her export products, which include coffee, cotton, bananas, and oil seeds, and therefore is less vulnerable to the ups and downs of her customers.

Although the Central Americans may resent the dominant position of foreign enterprises there is no getting away from the fact that foreign capital is essential if their economies are to expand. In most of the Republics legislation is needed that would clearly define the granting of concessions and the establishment of new foreign companies. Such legislation would prevent abuses and privileges, real and imaginary, and clarify the position of foreign companies.

Year-End Corporate Statements

(*Continued from page* 641)

would compare with $3.11 a share earned in the first half of 1955. Future earning statements, of course, will be adjusted for the newly announced two-for-one stock split. With the cash dividend raised on the old stock to $1 quarterly, the new cash dividend rate will be 50 cents a share.

GENERAL MOTORS CORP.—The preliminary report for 1954 showed earnings of $9.08 a share compared with $6.71 a share in the previous year. For a company of such huge dimensions, the sales drop was negligible, amounting in round figures to about 1%, or from $10.0 billion to $9.8 billion. However, in face of even a small sales decline, the increase in profits was phenomenal, rising to $806 million compared with $598 million in 1953. The rise was due entirely to the offsetting effect of a decline of $214.5 in U. S. and foreign taxes, including $192 million in excess profits taxes. This is one of the clearest examples on record in the past year of the effects of the ending of the excess profits tax on corporate profits. Defense sales are declining and it is anticipated that they will amount to less than 10% of total sales in 1955 but this is not as significant as would appear on surface since defense business is generally much less profitable than civilian business. Due to the enormous step-up of car and truck output in the final quarter of 1954, earnings rose to $2.50 a share, compared with $1.79 a share in the preceding quarter. With production schedules in the first quarter of 1955 fully maintained at the highest level of the past year, earnings should at least approximate those of the final quarter of the year. The current

abnormally high production rate, however, may be subject to downward revision in the second quarter. In that case, second quarter earnings would be lower than in the first quarter.

KENNECOTT COPPER CORP.—A $53 million decline in operating revenues was not quite entirely absorbed by a $36 million decline in taxes. The result was a moderate decline in consolidated net income of about $11 million, equivalent to $1.01 a share. Earnings for the year 1954 were $7.19 a share compared with $8.20 a share the previous year. Though sales from the Chilean properties increased 68%, due to increased demand from Western Europe and U. S. stockpiling which took 36,000 tons of Braden copper, the substantially lower prices received from the Chilean production as compared with the U. S. domestic price, produced a smaller profit margin for this part of the company's output. Demand for copper has increased substantially in recent months and the company's mining divisions are now operating at capacity. The recent 3-cent a pound rise in the price of copper will add considerably to operating profits for the current year. In the final quarter of 1954, Kennecott showed the effects of the improving situation with an increase over the third quarter of from $1.46 a share to $1.83 a share. On the basis of current and prospective operaticns, the company could experience record earnings in 1955.

HERCULES POWDER CO.—Sales continued on an upward trend throughout 1954, with the result that despite a slow start, the company's volume almost equalled that of 1953. Sales were $187.5 million, compared with $190.2 million the previous year. It is expected that 1955 sales will reach a new high record. Due to the lapse of the excess profits tax, the net profit margin increased from 6.1% in 1953 to 7.5% in 1954. This enabled the company to show earnings of $5.10 a share against $4.20 a share in 1953. Owing to the great diversity of industries using Hercules products no one single factor appears to have been responsible for the steady gain in sales. Among the more interesting recent developments, however, are research and development activities related to production of rockets and guided missiles, a field which is under intense pressure to expand from the Defense Department. Approximately $21.2 million was expended in 1954 for capital additions and improvements, all of which was financed from internally generated funds. Only 48% of expenditures were provided through depreciation reserves so that there was a decline in the net liquid position. However, since a somewhat smaller sum will be expended for capital improvements in 1955, the cash position should be considerably strengthened. According to the strong sales position, as the company entered 1955, the earnings outlook for the next two quarterly periods appears promising.

BETHLEHEM STEEL CORP.—Sales declined about $445 million, or about 21%, but, due to offsets from savings through lower wage totals and smaller expenditures for materials and services, total income declined only about 5%. A $42 million decline in federal

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Year-End Corporate Statements

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income taxes held net income to approximately the same figure as 1953, despite a $19 million increase in depreciation and depletion. This increase alone was the equivalent of $2 a share on the common stock. Earnings for the year were reported at $13.18 a share, compared with $13.30 a share in 1953. The most remarkable feature of the company's report from the investor's standpoint was the enormous increase in fourth quarter earnings. This would seem to indicate that the company is in a rather special position to benefit from rising operations, as the percentage rise in this company's fourth quarter earnings as against the third quarter was about the highest in the industry. On the basis of expectation of continuance of the current rate of operations for the first half, earnings in that period should be in the neighborhood of $10 a share, and possibly even higher, if the operating rate should be stepped up.

LIGGETT & MYERS TOBACCO CO.—In common with the other cigarette manufacturers sales declined sharply in 1954. The loss in sales was $37.6 million, or about 6% under 1953. This is about in line with the experience of other large manufacturers. The decline in net income, however, was held to quite moderate proportions, the comparison being $22.4 million, or $5.30 a share in 1954 against $22.9 million, or $5.50 a share in 1953. The principal factor in the relative stability of earnings in the face of the sales decline was the cut in total taxes which was $3.3 million. Of this amount, there was a saving of about $900,000 in excess profits taxes. On a quarterly basis, the company showed improvement in net during the last two periods, earnings showing an average gain of about 15% for the final half. If this trend were continued throughout 1955, the company could come up with earnings of $5.50-$5.75 a share. Some loss in sales may be attributed to the effects of the "cancer" scare but there was also some loss in export trade, due to the cut in the number of our armed forces abroad and, also, foreign exchange difficulties with some countries with which the company does business. As with other cigarette manufacturers, there has been a sharp increase in sales of "king-sized" and "filter-type" cigarettes but this has been at the expense of sales of the regular type product. Undoubtedly, the cigarette industry is in a period of transition. Hence, it is of importance that this company maintains its characteristically strong financial position.

INT'L HARVESTER — A combination of lower defense sales and lower farm equipment sales in 1954 (fiscal year ends Oct. 31) produced a $262 million decline in total sales, or from $1,256 million in 1953 to $994 million in 1954. Of the total decline of $262 million $120 million resulted from lower defense business. Due to operating economies and lower federal income taxes, the decline in the net operating ratio was held to reasonable proportions; in 1954 it was 3.6% on sales as against 4.1% in 1953. Fourth quarter earnings slumped off rather conspicuously, however, and amounted to 45 cents a share compared with 76 cents a share in the third quarter but this was still well above the poor first quarter which showed only 24 cents a share. Since the first quarter of the fiscal year which ended January 31, is normally the poorest of the year, first quarter 1955 probably was not much better than the corresponding period of 1954. However, due to the more stabilized farm price situation, there are indications that an improvement in sales may set in during the April quarter. A promising factor is the company's evident intention to expand its interests in the road-machinery field. Earnings for the full fiscal year 1954 were $2.24 a share compared with $3.46 a share in 1953. Based on the general business outlook and the more stabilized farm income situation, it is probable 1955 will show an increase in earnings of moderate proportions.

ALLIED CHEMICAL & DYE CORP.—A moderate decline in earnings was reported for 1954, or from $5.10 to $4.80 a share, but this was accountd for by an increase of $7.5 million in accelerated amortization for construction of defense plants. This increase amounted to about 80 cents a share on the common so that but for the added charges, earnings would have been about $5.60 a share instead of the $4.80 a share reported. The final quarter of the year registered a sharp gain over the third quarter, or, $1.23 a share compared with $1.01 a share. Stock investments of the company continued to gain in value during the past year. At the close of the year-after the sale of Air Reduction stock-market value of stocks held was in excess of $58 million,

compared with $50 million in 1953 and an original cost of $20 million for the holdings. The general outlook for the company would seem to indicate further gains in earnings during 1954, due to enlarged operations and higher dividends from investment holdings. —END

Outlook for Lower-Priced Rails

(*Continued from page* 644)

property almost a year ago has endeavored to improve passenger service to recapture business lost to busses and private passenger cars. Progress has been made.

Financial results in 1954 were aided by corporate bookkeeping readjustments ordered by the Interstate Commerce Commission and by other changes which obscured disappointing operating figures. The improvement in the financial position was utilized to eliminate preferred dividend arrears and to suggest the possibility at least of institution of common dividends. Payment of two 5 per cent stock dividends on the junior shares was proposed. Although cutbacks in maintenance expenditures have been criticized, the new management appears committed to a policy of strict economy until the financial position has been further strengthened.

Pennsylvania Railroad, largest transportation system in the United States, serves a highly industrialized area between the Mississippi River and the eastern seaboard. Ports at New York and Baltimore as well as at Philadelphia are served. Leading industrial centers around the Great Lakes are linked with the Atlantic Coast. Traffic embraces coal, steel, automotive lines and a variety of manufactures. Density of the areas served is especially high.

This road probably offers the greatest opportunity for improvement of operations through modernization of facilities of any of the important domestic carriers. Passenger traffic is relatively extensive and is unprofitable. Vast terminal operations impose a severe burden. Management has been slow in adopting diesel power as a replacement for steam, partly because the road derives large revenues from coal movement and has ready access to abundant fuel sources.

Net income fell last year to $1.41 from $2.95 a share in 1953. The disappointing showing could be attributed in part to the drop in operations of steel producers. A recovery likely would have favorable effects on 1955 earnings. Over the longer term possibilities are envisioned in utilization of space above the Pennsylavnia Station in New York for construction of a building.

Western Maryland is a small carrier controlled by Baltimore & Ohio and serves communities in Maryland between Baltimore and Hagerstown. Coal and steel constitute major traffic items. Movement of iron ore from Baltimore to consuming areas near Baltimore and along the Reading, with which Western Maryland has a connection, has become important.

Efforts have been made in recent years to work out a recapitalization plan which would take care of more than $110 a share in arrears on the $7 first preferred. The non-cumulative second preferred has received no dividends. Common holders are optimistic that a readjustment can be effected which would satisfy claims of senior stockholders and pave the way for distributions on the common. In due course Baltimore & Ohio might have an opportunity of disposing of its holding and applying the proceeds to debt

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Outlook for Lower-Priced Rails

(*Continued from page* 669)

retirement.

Conclusion

Of the stocks discussed in the above, the following seem to be in the most advantageous speculative position at present: Baltimore & Ohio; Delaware, Lackawanna & Western; Gulf, Mobile & Ohio; Lehigh Valley; Pennsylvania and Western Maryland. New York Central has already had a substantial move and apparently will require some time to consolidate its position. —END

Companies With a Big Stake in Williston Basin

(*Continued from page* 649)

approximately 90,000 acres on the Cedar Creek Anticline in Montana, and approximately 110,000 acres in the Bowdoin Field, in that state. In addition, it controls 5,500 acres near Williston, No. Dakota, 3,000 acres in Mercer County, in the same state, and about 8,000 acres in Harding County, So. Dakota.

All together, these holdings total 216,500 acres, much of which has yet to be explored and developed. Among the most valuable acreage, is, without question, the 90,000 acres on the rich Cedar Creek Anticline which includes nine areas productive of oil whose limits were further extended by 1954 drilling. In the Shell Pine area alone, the largest oil field so far brought in on the Cedar Creek Anticline, Montana-Dakota controls 2,040 acres. In the Little Beaver Field, where it controls 19,447 acres, there are now four producing wells, all located on the company's leases. Drilling is being done by the *Shell Oil Co.*, which plans to accelerate operations in 1955, having recently completed and put into operation, a 12-inch crude oil pipeline from near Glendive, Montana, to the Cabin Creek Field. Rumors also have it that this line may eventually be tied into a system extending southward into Wyoming, providing that portion of the basin with an economical outlet for its crude production. This latter development, if it came about, would be of great importance in itself and also might prove a forerunner of a pipeline to carry production from the various fields in the basin to midwest refining centers.

This would be a major development, spurring exploration and production throughout the entire region. Such activity has been limited by lack of satisfactory markets for all but the output of a few fields although this situation has been improved to some extent by one or two small refineries going on stream last year and the completion of Standard of Indiana's Mandan refinery last October. Prior to that time, Standard of Indiana's subsidiary, the Stanolind Oil Purchasing Co., was paying $2 a barrel for Dakota crude which it was shipping by tank car to its Whiting refinery. This price was in contrast to $2.90 a barrel that had been posted for Mid-Continent oil. Since January 1, this year, Stanolind has boosted its price for Dakota crude for processing at Mandan, putting it on a price parity with Mid-Continent production.

The chief beneficiary of this price increase is *Amerada Petroleum Corp.*, which brought in the Beaver Lodge Field discovery well in 1951, and controls about 1.5 million acres in various sections of the basin. At the present time, it is carrying on aggressive development work and has about 350 producing wells in the Beaver Lodge, Tioga, Charlson, Hofflund and other fields. Output from these wells through most of 1954 was held to 10,000 barrels a day for which it received on an average of $2 a barrel. With the Mandan refinery in full operation, Amerada, it is estimated, could bring its Dakota crude output up to 20,000 barrels daily which at $2.90 a barrel would make quite a difference in earnings from this source with 1955 net income making a considerably better showing than the $5.25 a share it is expected to report for 1954.

Last year, Amerada's total expenditures for intangible drilling costs and exploration were in the neighborhood of $25 million. This was about equal to 1953 similar expenditures which, of course, included activity on other holdings in Texas, Louisiana, Kansas, Oklahoma, California and other states as well as in the province of Alberta, Canada. Part of these

penditures represent large investments it has made in exploring and developing a portion of Williston Basin properties, pointing up the company's measure of the region's tremendous possibilities as one of the greatest the country's sources of crude oil and natural gas.

From the stock market standpoint, the seven whose Williston point, the several companies whose Williston Basin activities are described above would seem to be in position to benefit the most from developments in that area. Other oil companies are also interested in the area but their commitments are not large enough yet to justify expectations that their rewards will be unusually large from their operations in the region. —END

Electronic Computers: a New Source of Earnings for Office Equipments

(*Continued from page* 651)

organizations as well. As a matter of fact, manufacture of computers has already achieved the stature of big business. Although International Business Machines and Remington Rand, regarded as pioneers in the field, are well up in front, other companies that have computers on the market include *Underwood Corp., National Cash Register, Raytheon Manufacturing,* and *Burroughs Corp.* By next March, Underwood expects to have one of its "Elecom 125" electronic computers in operation at the Mallory Air Force Depot. Initial use of the machine will be for inventory control of Air Force supplies for the purpose of streamlining logistic procedures, and provide accurate and instant management and budget data. Burroughs has brought out its Series G electronic high speed printing and accounting machine, designed for the growing number of companies whose volume of accounting and other records has increased to a point where it cannot be handled efficiently by older methods. This unit as well as that of National Cash Register, the latter priced in the $125,000 to $150,000 price range, will probably be sold outright, although undoubtedly potential users of this equipment would be able to negotiate a rental arrangement.

The larger electronic computers such as the Univac and other Remington Rand units as well as IBM's "701", "650", "702", and the "Norc" are comparatively expensive units, their costs ranging anywhere from $250,000 to in excess of one million dollars.

Both Remington Rand and IBM have adopted the policy of renting the various units, the Univac system, of which 22 have already been installed according to last reports, renting at a monthly average of $25,000 each with the junior Univac, 105 of which have been put into operation with orders on hand for 132 more for installation, rents at $1,200 a month. International Business Machines' rentals run somewhat parallel with those of Remington Rand. For instance its "702" model would rent on an average of $25,000 monthly with other units varying from that figure, depending upon quantity and combination of units supplied.

For both companies, these rentals represent a steady flow of income. Although Remington Rand does not segregate earnings from these sources from those it derives through other divisions of its business, it is apparent that electronic computer rentals are steadily rising. Net income for the first nine months of its current fiscal year ending March 31, increased to $11.6 million, equal to $2.19 a share from $8.4 million, or $1.61 a share for the first nine months of the preceding year.

The impact on IBM's earnings as a result of the steady expansion of its electronic computer rentals is evident in its report of operations for 1954. During the 12 months to last December 31, domestic sales, service and rental revenues totaled $461.3 million. This represented a gain of approximately $52.5 million over the previous year. Net income increased to $46.5 million, or $11.35 a share, up from $34.1 million, equal to $8.53 a share for 1953.

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Electronic Computers: A New Source of Earnings for Office Equipments

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Conclusion

The manufacture and rental of different types of electronic computers will provide a growing source of income for the companies engaged in this field. Of equal importance is the fact that revenue from the new products will tend to stabilize earnings of the business machine companies in periods when the sale of their more conventional equipment may lag temporarily owing to any setback that may occur in the general economic position.

It is still too early to tell just what proportion of total earnings is derived from the electronic computer but judging from the size of the rentals mentioned above, it is obvious that total receipts are already running into the millions of dollars annually. In time, this probably will reach figures much larger. The general expectation of a bright future for this division of electronics manufacture is undoubtedly what has caused the considerable increase of public interest in the shares of these companies. They may be truly said to belong to the "growth" class of stock. —END

The Trend of Events

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split, the fact is, of course, that the mere splitting of shares adds nothing directly to the investor's equity, unless the cash dividend is raised, as well. Nevertheless, the importance which investors attach to the stock split is justified on grounds which have to do principally with the future marketability of the stock. The reasoning behind this is as follows: The multiplication of the shares of a company through stock splits (including large stock dividends) and the automatic reduction in the market price following such action brings the new shares within reach of a much larger group of investors than is possible when the shares remain at high prices. This permanently widens the base of investor interest in the shares and guarantees, as much as is possible, a broader market.

Where the shares represent important companies, the enhanced marketabality is very likely to be accorded a special marekt value entirely apart from considerations of earnings and dividends.

To a significant extent, the added value is created through the consistent buying of large institutional investors—investment trusts, pension funds, mutual funds and similar organizations whose large-scale operations require the broadest possible markets in the individual securities they acquire for their portfolios. Thus, the splitting of shares, to an extent greater than is generally realized, is due to an awareness on the part of corporate managements of the need to facilitate the investment operations of the very largest investors.

Additionally, corporate management welcomes the addition of numerous smaller investors to its ranks of stockholders as an obvious means of creating greater stockholder good-will and of reaching as many investors as possible to provide for future financing through the issue of securities.

A generation ago, the splitting of shares had its genesis, to an unfortunate extent, in manipulation and the desire of "insiders" to unload stock on the public. The situation is quite different to-day. Corporations now have a far more serious purpose in mind when they recommend that the shares of their companiees be split. They are thinking in terms of creating a permanent store of good-will among increasing millions of shareholders as an effective means of strengthening the foundations of their companiees in order to cope more efficiently with long-term problems. —END

BOOK REVIEW

Rebel Princess

By EVELYN ANTHONY

It was a snowy winter evening in 1743 when a horseman drew up at the humble German castle of Anhalt Zerbst bearing a summons from Moscow's Imperial Court. Elizabeth of Russia had chosen her distant kinswoman, young Augusta Fredricka of Anhalt, as the future wife of Grand Duke Peter.

Set against the glittering background of eighteenth-century Russia, *Rebel Princess* tells the enthralling story of these twenty momentous years in the life of one of the most astonishing women of all time. As Catherine the Great she left her mark upon world history.
Crowell Co. $3.00

Answers to Inquiries

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a rich and growing territory and it has shown a record of steady growth.

The stock is a good grade issue yielding a satisfactory income return on its $2.20 annual dividend.

Celotex Corporation

"I am interested in finding out recent earnings of Celotex Corp., new developments in the company and prospects over coming months."

M. E., Tarrytown, New York

Celotex Corp. is engaged in the manufacture of building materials, being the largest factor in the rigid insulation board and acoustical products industry. Sales of insulation tend to fluctuate more widely than in the case of most building materials.

Net earnings of the Celotex Corp. in the year ended October 31st, 1954, totaled $3,202,649, after all charges and provision for taxes on income, compared with $3,024,844 the year before.

These earnings, after preferred stock dividend requirements, equaled $3.25 a share on 905,472 shares of issued common stock, as against $3.05 a share on the same number of shares issued in the preceding year. On the 878,651 common shares outstanding after deducting treasury shares, the latest year's income equaled $3.35 a share.

Net sales reached an all-time high of $62,257,623, compared with $59,980,026 the year before.

A new and modern gypsum wallboard plant is being constructed at the company's Port Clinton, Ohio property, designed to approximately double the present board capacity. Celotex is also completely modernizing the facilities and equipment of its plaster plant and quarry at Port Clinton to handle the increased production and to further improve efficiency and product quality. Other construction and expansion programs are now under way to substantially increase capacities for the production of various types of Celotex acoustical products. During the year, research activities were further expanded and broadened and increased attention was given to product development and sales promotion directed toward developing new

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BOOK REVIEWS

Seven Years in Tibet
By HEINRICH HARRER

This is the action-packed story of a young adventurer's escape from a British internment camp in India during World War II and his dramatic trek through rugged Himalayan passes to sanctuary in the Forbidden City of Lhasa.

The adventure began just at the outbreak of war. The author, a noted Austrian mountain-climber and skier, was with the Nanga Parbat reconnaissance group in Karachi awaiting a steamer to Europe. The group, detained by the English, immediately began a series of desperate attempts to escape. Finally succeeding, Harrer and a companion, another skilled mountain-climber, began their tortuous journey of twenty-one months to Tibet. Posing as Indians, with hair and beard dyed black and skin stained, they attempted some of the most unusual and exciting exploits ever narrated. The reader has an unmistakable feeling that these two mountain-loving men are a breed apart and that in stature they rival the magnificence of the peaks they bypass and traverse. After posing as the vanguard of an important personage en route, they win through to the closely-guarded city of Lhasa.

Harrier left Tibet in 1950, but his heart is with the people about whom he writes with moving humility, simplicity, and dignity. "Wherever I live, I shall feel homesick for Tibet. I often think I can still hear the wild cries of geese and cranes and the beating of their wings as they fly over Lhasa in the clear cold moonlight."

Dutton $5.00

"Industrial Pensions"
By CHARLES L. DEARING

Industrial Pensions presents an original survey of this most recent development in the quest for economic security in old age. This book explores numerous aspects of these new pension arrangements; it examines the basic economic principles and facts which underlie industrial pensions; considers in detail the limitations of existing programs, and offers a new basis on which private and public policies can be formulated.

There has been incomplete understanding of the existing and potentially far-reaching effects of private pension programs upon the Nation's economic structure and the probable need for a critical reappraisal of government policies involved. The present study brings these problems into focus and perspective. It defines the major factors since 1949 which have had a significant influence on industrial pension programs.

This book will be of keen interest and value to students of the over-all problems of an aging population; to managers of pension funds concerned with possible deficiencies in their present programs and the outlook for investment of these funds; to management and labor with respect to their mutual problems in pension developments; and to economists and policy officials concerned with the significance of industrial pensions in formulating decisions involving social, labor, economic, and tax policies.

Brookings Institute $3.75

As I See It!

(*Continued from page* 621)

is not a time when the Soviet leaders are likely to engage in bold moves on the international chessboard. On the contrary, with such men as Marshal Zhukov having more to say than ever before about the conduct of Soviet policies, the council of moderation is likely to prevail. Even the idea of a meeting between President Eisenhower and Zhukov, tossed out at the President's recent press conference, may not be so fanciful as it seems; the President was careful not to close the door to such a meeting. Where diplomats have failed, military men who know how to size up each other's strength may yet succeed, since a peaceful settlement is clearly in everyone's interest. But if Soviet policy remains as uncompromising and belligerent as ever, the U. S. would be well advised to heed its own counsel and not be led by its Allies into the path of compromises that weaken the whole free world. —END

BOOK REVIEW

A Study of History—Vol 7-10
Toynbee's Monumental Achievement

The final volumes of Prof. Toynbee's "A Study of History" should help crystallize the though of serious delvers into the meaning of civilization. Taking the broadest possible view of history, Toynbee sees that the governmental civilizations for the past few thousand years were merely a layer superimposed on the central pillars of society, which are the great religions of the world. Only to the forces animating these religions does he ascribe true performance, all else, even the most firmly-established societies being temporary and evanescent. From his profound knowledge of the nature of the history of man's struggle, Prof. Toynbee offers his firmest belief that material achievements and the controlling governments, which, no matter their outer form and substance, are far less important to the future of man than his innate spiritual striving and his instinct approach to the need for coalescing all the real and enduring progress can be made. The reader can find an enormous variety of subjects treated by a master, to offer him endless pleasure and insight into the nature of man's history and future.

Oxford Four Volumes $35

Answers to Inquiries

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products and diversified markets. A number of new products were introduced. The outlook over coming months indicates a good demand for building and accoustical materials in the residential, institutional and commercial fields, not only for new construction but also in repair and remodeling activities. The company also looks forward to further improvement in demand for its products for non-building uses.

Celotex Ltd., English Subsidiary reported increased earnings for the fiscal year ended October 31, 1954. Net income totaled $322,566, converted at the rate of $2.80 to the pound Sterling, compared with $191,409 in the preceding year on the same basis of conversion.

The South Coast Corp., of which Celotex owns 205,328 shares representing approximately 48% of the outstanding common stock, reported net income of $285,438 after taxes in the fiscal year ended July 31, 1954, equal to 67c a share on its outstanding common stock.

Dividends in 1954 totaled $1.50 per share, the same as paid in 1953.

Marathon Corporation

"What are the principal products of Marathon Corp.? Please also furnish recent earnings and new projects."
A. B., Milwaukee, Wisconsin

Marathon Corp. is an integrated producer of protective printed wrappers, containers and packaging units used primarily in the food industry—a growing and profitable field.

Net earnings of Marathon Corp. for the fiscal year ended October 31, 1954 were $7,489,082, a 28% increase over 1953 earnings of $5,844,726. Earnings were $2.01 per share of common stock for 1954 fiscal year, compared with $1.55 a share the previous year.

Net sales were $117,806,121 in 1954. This was $5,609,630 higher than the 1953 sales total of $112,196,491. The company expects that sales and earnings in 1955 will exceed those of 1954.

The company's capital expenditures amounted to $7,289,117 during the last year. Projects included completion of a photoen-

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What's New?

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could be held for long-term investment.

Continental Can Co., increased 1954 sales by 11% over the preceding year, and registered a 32% gain in net income. Net, equal to $5.52 a share on sales of $616.1 million, compared with $4.29 a share on 1953 sales volume of $554.4 million. Continental, second largest maker of metal containers, can attribute much of its rise in sales to various acquisitions in the past two years which have broadened its interests in the non-metal packaging field. Price increases have also helped in making possible the better showing. One of the company's recent moves has been into the plastic pipe field. Among other important companies interested in this new and growing field supplying industries concerned with handling corrosive liquids are: U. S. Steel, U. S. Rubber, National Cylinder Gas; and among the chemical manufacturers: Eastman Chemical, Union Carbide, Allied Chemical, Monsanto and Dow. This particular field is still in its infancy, however, and is hardly likely to present a challenge to makers of iron, steel or aluminum pipe for some time to come.

Carrier Corporation has recently acquired complete ownership of Cambridge Corp., and approved the merger with Affiliated Gas Equipment, Inc. This further strengthens Carrier in the rapidly growing air-conditioning industry, rounds-out its home heating and cooling line and expands its facilities into new engineering and manufacturing fields. While completed contracts and sales eased slightly in 1954 to $151.4 from $164.4 the previous year, net earnings rose 12% to $4.69 per share before sale of 278,422 shares in October 1953, compared with $4.19 per share in preceeding fiscal 12 months. A decline in defense orders plus a somewhat cooler summer last year shaded gross revenues, while EPT elimination aided 1954 net results. On the basis of near-term outlook, the stock around 60 seems fully-priced though its longer potential is far from exhausted.

Owens-Illinois Glass Co. With record 1954 sales of $336.7 million, up from $333 million for 1953, and more than $43 million greater than 1952 volume, Owens-Illinois showed a net profit of $21.5 million, equal to $7.05 a share on its outstanding capital stock. This showing compares with 1953 net of $16.2 million, or $5.32 a share on the same capitalization. While the 1954 sales increase reflected gains in certain lines of glass containers, industrial, electronic and other glass products, metal and plastic caps, and custom-molded plastic items, a significant development was the company's ability to increase 1954 profit before income taxes to $42.4 million from $35.1 million for 1953 and raise net profit after income taxes by $5.3 million on a sales gain of $3.7 million. Profit margins should be further improved this year by the new glass container plant, one of the largest and most modern in the world, which went into operation a week or ten days ago.

Rohm & Haas Co., stockholders will vote at their annual meeting scheduled for April 19, on the company's plan to increase authorized $20 par common stock to 2 million shares from one million. Although the company states it has no plans at present for issuance of any of the proposed additional shares, it is believed favorable action at the meeting may be the first step toward an eventual split up of the stock. The issue, which sold at a 1954 low of 148 has since virtually doubled in market value, currently selling at 295, its record high. For the nine months to last September 30, net earnings on the stock were equal to $9.24 a share of common stock on which the company has been 40 cents in quarterly dividends and year-end stock dividends of 4 per cent.

Lehman Corp., stockholders of record February 8, are given rights to subscribe for 420,623 shares of new stock in the ratio of one share for each 10 now held at $43.25 a share. Subscription rights expire February 23. Lenman Corp., present shares listed on the New York Stock Exchange, are currently quoted around 46¼. The company, with an unbroken dividend record over the last quarter of a century, is a closed-end investment company with a net asset value at the close of 1954 of $190.3 million. —END

Answers to Inquiries

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graving and rotogravure at Neenah, Wisconsin, purchase of the Menominee, Michigan, paper mill and converting plant which Marathon had operated under a rental agreement since 1934 and construction of a food packaging plant at Modesto, California. The company also made extensive additions of equipment needed in its pulp paper making, printing and other manufacturing operations.

Principal projects for 1955, include completion of the Modesto plant, installation of paper cup manufacturing facilities of the company's Oswego, N. Y. plant and construction of a food wrapper and label plant at Neenah. In addition, a new paper machine is being installed at the Green Bay, Wisconsin, plant, where the company's Northern household products are produced. This machine, the plant's eighth, is expected to be placed in operation early in 1955.

Because the diversified nature of the company's finished products permits use of various grades of woodpulp, Marathon is exploring the advisability of acquiring timberlands in other sections of the country. This possibility is encouraging, according to the president of the company, "because markets have been developed which require extensive use of pulp grades that can be produced in volume at lower cost."

Dividends were 30c quarterly in 1954, the same as paid in 1953.

—END